



**TEXAS HOUSE OF REPRESENTATIVES  
COMMITTEE ON APPROPRIATIONS**

**AGENDA  
SUBCOMMITTEE ON ARTICLE III**

**CHAIRMAN BONNEN**

WEDNESDAY, FEBRUARY 20, 2019  
7:30 AM  
ROOM E1.030

- I. CALL TO ORDER**
- II. CHAIRMAN’S OPENING REMARKS**
- III. TEXAS EDUCATION AGENCY**
  - Aaron Henricksen, Senior Analyst - Legislative Budget Board
  - Tedd Holladay, Analyst - Legislative Budget Board
  - Mike Morath, Commissioner - Texas Education Agency
  - Dr. Clint Carpenter, Superintendent - Windham School District
- IV. TEACHER RETIREMENT SYSTEM**
  - Avery Saxe, Analyst - Legislative Budget Board
  - Brian Guthrie, Executive Director
- V. OPTIONAL RETIREMENT PROGRAM**
  - Avery Saxe, Analyst - Legislative Budget Board
- VI. PUBLIC TESTIMONY AND ADJOURNMENT**

Texas Education Agency  
Summary of Recommendations - House

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Aaron Henricksen, LBB Analyst, FSP

Mike Morath, Commissioner of Education

Tedd Holladay, LBB Analyst, Non-FSP Programs and Administration

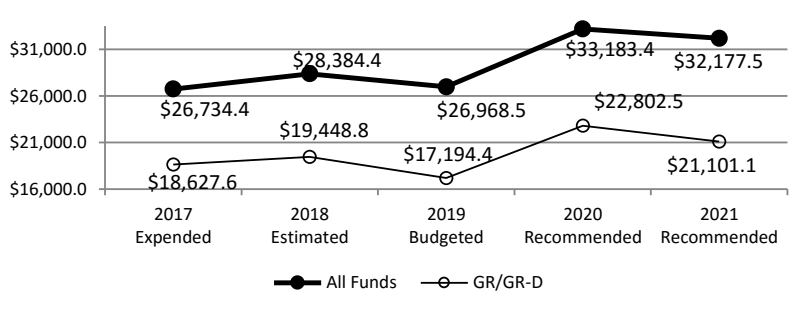
FSP ONLY (LESS SET-ASIDES)				
Method of Financing	2018-19 Base	2020-21 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$34,619,200,000	\$41,975,500,000	\$7,356,300,000	21.2%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$34,619,200,000	\$41,975,500,000	\$7,356,300,000	21.2%
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$8,100,800,000	\$10,626,200,000	\$2,525,400,000	31.2%
All Funds	\$42,720,000,000	\$52,601,700,000	\$9,881,700,000	23.1%

NON-FSP PROGRAM AND ADMINISTRATIVE BUDGET				
Method of Financing	2018-19 Base	2020-21 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$2,024,021,464	\$1,928,174,300	(\$95,847,164)	(4.7%)
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$2,024,021,464	\$1,928,174,300	(\$95,847,164)	(4.7%)
Federal Funds	\$10,494,397,537	\$10,699,073,317	\$204,675,780	2.0%
Other	\$114,483,678	\$131,983,678	\$17,500,000	15.3%
All Funds	\$12,632,902,679	\$12,759,231,295	\$126,328,616	1.0%

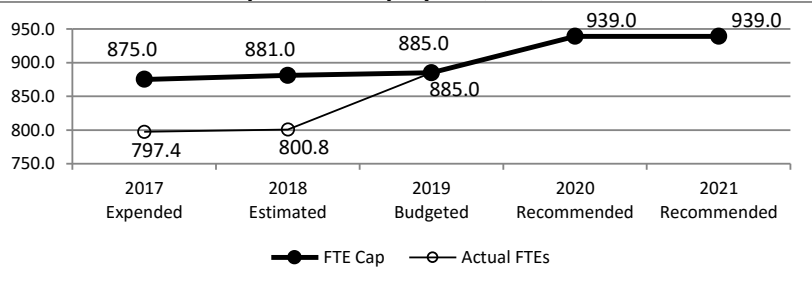
TEA TOTAL				
Method of Financing	2018-19 Base	2020-21 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$36,643,221,464	\$43,903,674,300	\$7,260,452,836	19.8%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$36,643,221,464	\$43,903,674,300	\$7,260,452,836	19.8%
Federal Funds	\$10,494,397,537	\$10,699,073,317	\$204,675,780	2.0%
Other	\$8,215,283,678	\$10,758,183,678	\$2,542,900,000	31.0%
All Funds	\$55,352,902,679	\$65,360,931,295	\$10,008,028,616	18.1%

The bill pattern for this agency (2020-21 Recommended) represents an estimated 63.8% of the agency's estimated total available funds for the 2020-21 biennium.

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



Agency Budget and Policy Issues and/or Highlights

House Bill 1 includes an additional \$9.0 billion in General Revenue Funds contingent on enactment of legislation that increases the state share of the Foundation School Program (FSP), enhances district entitlement, reduces recapture, and provides local property tax relief, while maintaining an equitable system of school finance. House Bill 1 includes updates to major FSP budget drivers including property value growth, enrollment growth, and the Austin ISD yield. House Bill 1 includes a total of \$7.4 billion increase in General Revenue Funds, and an increase of \$2.5 billion in Other Funds attributable to projected increases in revenues from the Property Tax Relief Fund and recapture payments.

House Bill 1 decreases funding for Non-FSP Program and Administration by \$95.8 million in General Revenue Funding, primarily attributable to a \$166.7 million decrease in funding for instructional materials and technology. This reduction is partially offset by \$79.7 million increase in General Revenue for various programs, including \$50.5 million in General Revenue for Special Education Supports.

House Bill 1 provides \$54.5 million in All Funds for the Safe & Healthy Schools Initiative.

**Texas Education Agency**  
**Summary of Funding Changes and Recommendations - House**

**Section 2**

Funding Changes and Recommendations for the 2020-21 Biennium compared to the 2018-19 Base Spending Level (in millions)	General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
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**SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):**

FOUNDATION SCHOOL PROGRAM (FSP)							
(A)	<b>Additional Foundation School Program funds</b> contingent on enactment of legislation increasing the state share, enhancing school district entitlement, reducing recapture, and providing tax relief.	\$9,000.0	\$0.0	\$0.0	\$0.0	\$9,000.0	Rider
(B)	<b>Maintenance and Operations:</b> General Revenue Funds are projected to decrease due primarily to the savings from projected property value growth, and Method of Finance Shifts due to projected increases in Other Funds (including Recapture Revenue and the Property Tax Relief Fund) partially offset by the cost of enrollment growth, the cost of the Austin ISD yield growth, and other adjustments. See Selected Fiscal and Policy Issue #2.	(\$1,649.9)	\$0.0	\$0.0	\$2,525.4	\$875.5	A.1.1
(C)	<b>Facilities:</b> Biennial costs for facilities are projected to increase, primarily due to the annualization of increased facilities funding provided in fiscal year 2019.	\$6.2	\$0.0	\$0.0	\$0.0	\$6.2	A.1.2
FSP SIGNIFICANT Funding Changes and Recommendations (in millions)		\$7,356.3	\$0.0	\$0.0	\$2,525.4	\$9,881.7	

NON-FSP PROGRAMS AND ADMINISTRATION							
(D)	Funding for the Technology and Instructional Materials Allotment results in a decrease of \$166.7 million from 2018-19 base amounts, primarily attributable to \$169.6 million in 2016-17 unexpended balances included in 2018-19 base.	(\$166.7)	\$0.0	\$0.0	\$0.0	(\$166.7)	B.2.1
(E)	Decrease of \$25.0 million in one-time funding from Economic Stabilization Fund for E-Rate program.	\$0.0	\$0.0	\$0.0	(\$25.0)	(\$25.0)	B.2.1
(F)	Safe and Healthy Schools Initiative	\$12.0	\$0.0	\$0.0	\$42.5	\$54.5	B.2.2, B.3.2, B.3.5
(G)	Special Education Supports	\$50.5	\$0.0	\$0.0	\$0.0	\$50.5	A.2.3, B.3.5
(H)	Communities in Schools	\$10.0	\$0.0	\$0.0	\$0.0	\$10.0	A.2.4
(I)	Adult Charter School	\$5.5	\$0.0	\$0.0	\$0.0	\$5.5	A.2.1
(J)	Texas Advanced Placement Initiative	\$1.7	\$0.0	\$0.0	\$0.0	\$1.7	A.2.1

**Texas Education Agency**  
**Summary of Funding Changes and Recommendations - House**

**Section 2**

Funding Changes and Recommendations for the 2020-21 Biennium compared to the 2018-19 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
<i>OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):</i>							
<b>NON-FSP PROGRAMS AND ADMINISTRATION</b>							
(K)	Agency Operations, Administration, and Information Systems Technology: Expiration of private grants, elimination of one-time funding, and reduction to account for discretionary transfer of funds under Rider 25.	(\$7.7)	\$0.0	\$0.0	\$0.0	(\$7.7)	A.2.1, B.3.2, B.2.4, B.3.5
(L)	Federal Funds: Increased funding for School Breakfast, School Lunch, and other programs, partially offset by expiration of Hurricane Harvey grant and decreased funding for other federal programs.	\$0.0	\$0.0	\$204.7	\$0.0	\$204.7	A.2.1, A.2.2, A.2.4, B.2.1, B.2.3
(M)	Reduction in transfer from TEA to the Texas Juvenile Justice Department due to declining populations in secure juvenile facilities.	(\$1.1)	\$0.0	\$0.0	\$0.0	(\$1.1)	B.2.2
<b>NON-FSP SIGNIFICANT &amp; OTHER Funding Changes and Recommendations (in millions)</b>		<b>(\$95.8)</b>	<b>\$0.0</b>	<b>\$204.7</b>	<b>\$17.5</b>	<b>\$126.4</b>	As Listed
<i>SIGNIFICANT &amp; OTHER Funding Increases</i>		\$79.7	\$0.0	\$204.7	\$42.5	\$326.9	As Listed
<i>SIGNIFICANT &amp; OTHER Funding Decreases</i>		(\$175.5)	\$0.0	\$0.0	(\$25.0)	(\$200.5)	As Listed
<b>TOTAL SIGNIFICANT &amp; OTHER Funding Changes and Recommendations (in millions)</b>		<b>\$7,260.5</b>	<b>\$0.0</b>	<b>\$204.7</b>	<b>\$2,542.9</b>	<b>\$10,008.1</b>	As Listed
<i>SIGNIFICANT &amp; OTHER Funding Increases</i>		\$9,085.9	\$0.0	\$204.7	\$2,567.9	\$11,858.5	As Listed
<i>SIGNIFICANT &amp; OTHER Funding Decreases</i>		(\$1,825.4)	\$0.0	\$0.0	(\$25.0)	(\$1,850.4)	As Listed

NOTE: Totals may not sum due to rounding.

Texas Education Agency  
Selected Fiscal and Policy Issues - House

1. Additional \$9.0 billion in General Revenue Funds Contingent on Enactment of Legislation.

House Bill 1 adds \$9.0 billion in General Revenue Funds above the amount estimated to be required to fund the 2020-21 current law FSP entitlement, contingent on the enactment of legislation that increases the state share of the FSP, enhances district entitlement, reduces recapture, and provides local property tax relief, while maintaining an equitable system of school finance.

2. Foundation School Program Major Budget Drivers Assumptions and Yields

District Property Values					
Value Change		Budget Years Affected			
CPA Projections	TY15:	+4.32%	TY15	↗	FY16
	TY16:	+4.96%	TY16	↗	FY17
	TY17:	+7.11%	TY17	↗	FY18
	TY18:	+7.04%	TY18	↗	FY19
	TY19:	+6.19 %	TY19	↗	FY20
	TY20:	+4.07%	TY20	↗	FY21
				↗	FY22

District Property Values (DPV)

- The Comptroller projects strong property value growth primarily due to oil and natural gas properties and a steadily growing housing market.
- Under current law, DPV growth reduces the level of state aid needed to meet entitlement.

Tax Effort

**Assumption:** On a statewide basis, approximately 40 districts will successfully pass tax ratification elections each year, drawing roughly \$40 million in additional state aid in FY2020 and \$80 million in FY2021. Currently, 430, or 42 percent, of school districts have adopted the maximum rate of \$1.17. About 41% of taxing districts (419) have adopted M&O rates of \$1.04.

Yields

**Basic Allotment: \$5,140 (no change)**  
**Equalized Wealth Level: \$514,000 (no change)**  
**Austin ISD Yield: \$126.88 per penny per WADA in FY2020 and \$135.92 in FY2021.**

Statute establishes the minimum Basic Allotment at \$4,765, but allows a higher Basic Allotment to be established in the GAA. The Basic Allotment has been set at \$5,140 since fiscal year 2016. House Bill 1 continues the Basic Allotment at the same level. The Equalized Wealth Level is statutorily tied to the Basic Allotment.

The Austin ISD yields, which apply to the golden pennies in the enrichment tier (the first six pennies levied above the compressed tax rate), are projected to increase to \$126.88 per penny per WADA in FY2020 and \$135.92 per penny per WADA in FY2021, up from \$99.41 in FY 2018 and \$106.28 in FY 2019.

Based on Tax Year 2018 Travis Central Appraisal District certified values and TEA’s projected student counts for Austin ISD, robust property value growth combined with a declining student population produces a significant increase in Austin ISD-based yield. An updated yield calculation will be made when revised projections are received in March 2019.

Student Growth		
	Number of Students	Rate of Growth
FY15	75,087 ADA	1.57%
FY16	69,392 ADA	1.43%
FY17	47,096 ADA	0.96%
FY18	32,741 ADA	0.66%
FY19	64,647 ADA	1.25%
FY20	65,045 ADA	1.28%
FY21	65,880 ADA	1.28%

TEA  
Projections

**Student Growth**

TEA projects growth in compensatory education (1.94%), bilingual education (3.34%), career & technical education (5.64%), FTEs served in special education settings (3.6%), and special education mainstream ADA (4.7%).

10-year average ADA growth is 1.49%.

In the 2020-21 biennium, an annual increase of 65,000 ADA is estimated to roughly translate to an increase of 120,000 weighted ADA (WADA) per year. With a statewide average revenue of about \$6,317 per WADA for the biennium, this increase generates an additional ~\$750 million in state cost per cohort per year.

Please note, updated projections will be received in February and March 2019.

Driver	Agency	Statutory Deadline
ADA, Special Program ADA, and FTEs	TEA	October 1 - even year March 1 - odd year
Tax Rate of Each District	CPA	February 1 - each year
Total Taxable Value in State for Following Biennium	CPA	October 1 - even year March 1 - odd year

**FSP Items Specified in General Appropriations Act**

Item	Rider	Appropriated		House Bill 1	
		FY2018	FY2019	FY2020	FY2021
Basic Allotment	3	\$5,140	\$5,140	\$5,140	\$5,140
Tax Rate Compression Percentage	3	66.67%	66.67%	66.67%	66.67%
Instructional Facilities Allotment	3	\$0	\$0	\$0	\$0
New Instructional Facilities Allotment	3	\$23.75 million	\$23.75 million	\$23.75 million	\$23.75 million
Rapid Decline of Property Values	3	\$50 million	\$25 million	\$37.5 million	\$37.5 million
Transportation Allotment	5	Transportation allotment elements are established by rider #5			

- House Bill 1 funds the New Instructional Facilities Allotment and Rapid Decline of Property Values is funded at 2018-19 biennial levels.
- House Bill 1 does not include appropriations for Instructional Facilities Allotment (IFA) program awards to be made in 2020-21, but continue to fully fund IFA awards made in previous biennia.

3. 2018-19 Base Adjustment and 2020-21 Current Law Costs

	GR	All Funds
2018-19 FSP APPROPRIATION (LESS SET-ASIDES)	\$34,773	\$42,938
<b>2018-19 All Funds BASE ADJUSTMENTS FROM 2018-19 APPROPRIATED (in millions)</b>		
<b>New Costs/(Savings)</b>		
1 <b>Updated Drivers.</b> Primarily due to student enrollment in ISDs being lower than projected.	(\$415)	(\$415)
2 <b>Harvey.</b> Increased costs due to Hurricane Harvey (see Selected Fiscal and Policy Issue #5).	\$271	\$271
3 <b>Settle-Up, Prior Year and Other Adjustments.</b> Primarily additional costs incurred due to Hurricane Harvey.	(\$74)	(\$74)
<b>TOTAL, 2018-19 ALL FUNDS COST ADJUSTMENT OVER 2018-19 APPROPRIATION</b>	<b>(\$218)</b>	<b>(\$218)</b>
<b>MOF Shifts</b>		
3 <b>Property Tax Relief Fund (PTRF).</b> 2018-19 revenue lower than appropriated, increasing GR draw.	\$163	\$0
4 <b>Recapture.</b> Revenue higher than appropriated, decreasing GR draw.	(\$98)	\$0
<b>Total, MOF Shifts</b>	<b>\$65</b>	<b>\$0</b>
<b>TOTAL, 2018-19 BASE ADJUSTMENTS</b>	<b>(\$153)</b>	<b>(\$218)</b>
<b>Total General Revenue-related MOF Shifts</b>		
Available School Fund	\$45	
Lottery Revenue	\$173	
Foundation School Fund No. 193	(\$372)	
<b>Total</b>	<b>\$153</b>	
<b>2018-19 FSP BASE (ADJUSTED)</b>	<b>\$34,619</b>	<b>\$42,720</b>

\*Totals may not sum due to rounding

Payments to districts are subject to settle-up. State overpayments are recouped in subsequent years; state underpayments are owed in September.

<b>2020-21 FSP COSTS OVER 2018-19 BIENNIAL BASE (ADJUSTED) (in millions)</b>		
<b>Costs</b>	<b>GR</b>	<b>All Funds</b>
1 <b>Enrollment Growth.</b> 65,000 additional ADA in each fiscal year.	\$2,400	\$2,400
2 <b>District Property Value Change.</b> Projected DPV growth of 7.04% in Tax Year 2018, 6.19% in Tax Year 2019, and 4.07% in Tax Year 2020 results in reduced state costs.	(\$5,050)	(\$5,050)
3 <b>Increase in Austin ISD Yield Growth.</b> Rapid property value growth along with a decreasing student population in the Austin ISD has increased the Austin ISD yield applied to golden pennies from \$99.41 in fiscal year 2018 and \$106.28 in fiscal year 2019 to \$126.88 in fiscal year 2020 and \$135.92 in fiscal year 2021.	\$2,200	\$2,200
4 <b>Ongoing Cost of 2018-19 Formula Changes.</b> Biennialization of the increase in the Small-District Adjustment, increase in Existing Debt Allotment Yield, and Charter School Facilities Funding.	\$200	\$200
5 <b>Harvey.</b> Increased mandatory costs due to Hurricane Harvey (see Selected Fiscal and Policy Issue #5)	\$365	\$365
6 <b>Special Education.</b> Projected increase in special education population in Fiscal Years 2020 and 2021 (see Selected Fiscal and Policy Issue #6). Note: Settle-up costs due to increased special education population increases are shown in Settle-Up item below.	\$882	\$882
7 <b>Settle Up.</b> The 2020-21 biennium is projected to have higher settle-up costs than the 2018-19 biennium, primarily due to rising district property value collections, and the projected increase in special education students in Fiscal Year 2019 (see Selected Fiscal and Policy Issue #6).	\$120	\$120
8 <b>Enrichment Tax Effort and Prior Year and Other Adjustments.</b> Recommendation assumes a decrease of \$160 million in additional state cost due to the combined effects of tax effort increase and cost for prior year adjustments for DPV, collections, and payments associated with local economic development agreements.	(\$235)	(\$235)
<b>MOF Shifts</b>		
6 Recapture Revenue over base due to a projected increase in property values.	(\$2,354)	\$0
7 20-21 PTRF increase over base due to projected economic growth.	(\$172)	\$0
<b>TOTAL 2020-21 COSTS OVER 2018-19 BASE</b>	<b>(\$1,644)</b>	<b>\$882</b>
<b>Total General Revenue-related MOF Shifts</b>		
Available School Fund	\$102	
Lottery Revenue	\$80	
Foundation School Fund No. 193	(\$1,826)	
<b>Total</b>	<b>(\$1,644)</b>	
<b>Total General Revenue-related MOF Shifts</b>		
<b>2020-21 FSP CURRENT LAW COST</b>		
*Totals may not sum due to rounding	<b>\$33,010</b>	<b>\$43,636</b>



4. **State Share of FSP Entitlement: Current Law Compared to House Bill 1.** The state share of the total FSP entitlement has decreased in recent years, primarily due to strong property value growth. The below figures compare the state share of FSP under current law and with the additional funding included in House Bill 1 as Introduced.

**Current Law State and Local Share of FSP Entitlement (in millions)**

<b>Fiscal Year</b>	<b>Local - Retained</b>	<b>Local - Recaptured</b>	<b>State</b>	<b>Total</b>	<b>% State Share</b>
2014	\$21,603.7	\$1,212.8	\$18,772.6	\$41,589.1	45.1%
2015	\$22,939.4	\$1,492.6	\$18,779.1	\$43,211.0	43.5%
2016	\$24,019.2	\$1,587.5	\$19,873.3	\$45,480.0	43.7%
2017	\$25,223.7	\$1,721.9	\$19,388.2	\$46,333.8	41.8%
2018	\$26,788.6	\$2,059.2	\$19,144.4	\$47,992.2	39.9%
2019	\$28,274.9	\$2,610.0	\$18,731.9	\$49,616.8	37.8%
2020	\$29,402.7	\$3,234.9	\$18,231.5	\$50,869.0	35.8%
2021	\$30,116.4	\$3,783.8	\$17,936.9	\$51,837.1	34.6%

NOTE:

(1) Fiscal years 2019-21 are estimated.

(2) Local Retained amounts shown include local property tax revenue retained by local school districts, while Local Recaptured refers to recapture revenue remitted to the state pursuant to Chapter 41 of the Education Code.

(3) Local Retained includes maintenance and operations (M&O) and interest and sinking (I&S) property tax collections statutorily eligible for participation in the FSP.

**House Bill 1 State and Local Share of FSP Entitlement (in millions)  
Including \$9.0 Billion of General Revenue Funds Above Current Law**

<b>Fiscal Year</b>	<b>Local - Retained</b>	<b>Local - Recaptured</b>	<b>State</b>	<b>Total</b>	<b>% State Share</b>
2020	\$29,402.7	\$3,234.9	\$22,731.5	\$55,369.0	41.1%
2021	\$30,116.4	\$3,783.8	\$22,436.9	\$56,337.1	39.8%

NOTE:

(1) Fiscal years 2020-21 are estimated.

(2) Local Retained amounts shown include local property tax revenue retained by local school districts, while Local Recaptured refers to recapture revenue remitted to the state pursuant to Chapter 41 of the Education Code.

(3) Fiscal years 2020-21 include \$4.5 billion per fiscal year in additional state aid pursuant to Rider 77, Additional Foundation School Program Funds for Increasing the State Share, Enhancing School District Entitlement, Reducing Recapture, and Providing Tax Relief.

## 5. Hurricane Harvey

Estimated required costs attributable to Harvey total \$907 million in fiscal years 2018-2021, with \$271.3 million realized and incorporated into the adjusted 2018-19 base, an additional \$636 million in fiscal years 2020 and 2021 included in House Bill 1. For an explanation of the interaction between tax year and budget years, refer to the District Property Values graphic with green boxes in Selected Fiscal and Policy Issue #2 and the additional analysis on property tax issues in Appendix G.

**Mandatory FSP Costs of Hurricane Harvey (in millions)**

Item		FY 18	FY 19	FY 20	FY 21	Total
1	Compensatory Education	\$103.0	\$44.0	-	-	\$147.0
2	ADA Hold Harmless	\$13.0	\$76.1	-	-	\$89.1
3	Ch. 41 Facilities Remediation	-	\$30.0	-	-	\$30.0
4	TY 17 Reappraisal	-	\$5.2	-	-	\$5.2
5	TY 18 DPV Impact (for districts that reappraised)	-	-	\$131.7	-	\$131.7
6	TY 18 DPV Impact (for districts that <b>did not</b> reappraise)	-	-	\$292.3	-	\$292.3
7	TY 19 DPV Impact	-	-	-	\$212.0	\$212.0
<b>Total</b>		<b>\$116.0</b>	<b>\$155.3</b>	<b>\$424.0</b>	<b>\$212.0</b>	<b>\$907.3</b>

**Options for Further Legislative Consideration**

Legislative discussions have included the option of providing additional Harvey-related funding in addition to the state costs required under current law. Estimates of these optional costs are shown below. The Legislature could choose to fund these items through either a supplemental appropriation or by an additional appropriation in the 2020-21 General Appropriations Act.

Item		Total
8	Ch 42 Facilities Remediation	\$60.0
9	District Loss Due to Decreased Property Tax Collections	\$574.2
<b>Total</b>		<b>\$634.2</b>

## 6. Special Education Allotment

House Bill 1 includes an additional \$1.05 billion above TEA's October 2018 student enrollment projections for an increase of special education students equal to 0.5% of the total student population per year with costs for fiscal years 2019, 2020, and 2021. Current estimates of the special education population equals 9.2 percent of the overall student population in fiscal year 2018.

In January 2018, the United States Department of Education (USDE) released the findings of monitoring activities relating to TEA's compliance with the Individuals with Disabilities Education Act (IDEA) and cited specific areas where Texas failed to comply with federal law. In response, TEA issued a Special Education Strategic Plan in April 2018 to address the corrective actions required by USDE. As a result of these actions, it is anticipated that the special education student population will rise dramatically in the coming years, beginning in the current 2018-19 school year and continuing to grow as capacity at school district increases. Since districts are paid based on estimates, the additional special education population identified and served in the 2018-19 school year, will not be accounted for in the FSP until the settle-up process is completed in the fall of 2019 (fiscal year 2020). Due to settle-up being due on these students in fiscal year 2020, and updated estimates that will be provided by TEA in March 2019, it is assumed that three years of additional special education funding will need to be budgeted in the 2020-21 biennium.

## 7. Recapture Analysis

House Bill 1 includes estimated 2020-21 recapture revenue of \$7.02 billion, a \$2.35 billion increase over 2018-19 levels. House Bill 1 changes the description of recapture revenue in the agency's Method of Financing listing from "Appropriated Receipts" to "Recapture Payments – Attendance Credits" to increase clarity and transparency.

In an effort to address inequities among school districts in terms of access to revenue for public education, the Texas Education Code, Chapter 41, requires school districts with local property values per weighted student above statutorily-established Equalized Wealth Levels (EWL) to exercise one of five options to reduce property wealth per WADA. Most school districts subject to recapture opt to remit tax revenues associated with property value above the EWL directly to the state, through a process called recapture. Recapture revenue is only used as a method of financing the state's FSP obligations, and is not used for any other non-FSP related appropriation.

The EWL applicable to a district's compressed M&O tax levy is statutorily tied to the \$5,140 basic allotment and is therefore established at \$514,000 per WADA in each fiscal year of the 2018-19 biennium. The EWL applicable to any copper pennies a district opts to levy in Tier 2 is \$319,500. Revenues associated with golden pennies levied in Tier 2 are not subject to recapture, meaning that districts retain 100 percent of those tax revenues locally.

### *Analysis:*

For fiscal years 2006 through 2021, the following table provides the total recapture revenue, the percentage of recapture as a percentage of total M&O revenue, and the total number of districts paying recapture. Although the total amount of recapture revenue has grown in the 16 years shown, the percentage of total M&O revenue that recapture revenue composed has stayed within a general range of 3 to 5 percent until fiscal year 2019. In fiscal year 2019, recapture revenue is projected to be 6 percent of total M&O revenue, and grow to 8 percent of total M&O revenue in fiscal year 2021. The 16-year average of recapture as a percent of total M&O revenue is 4.4 percent.

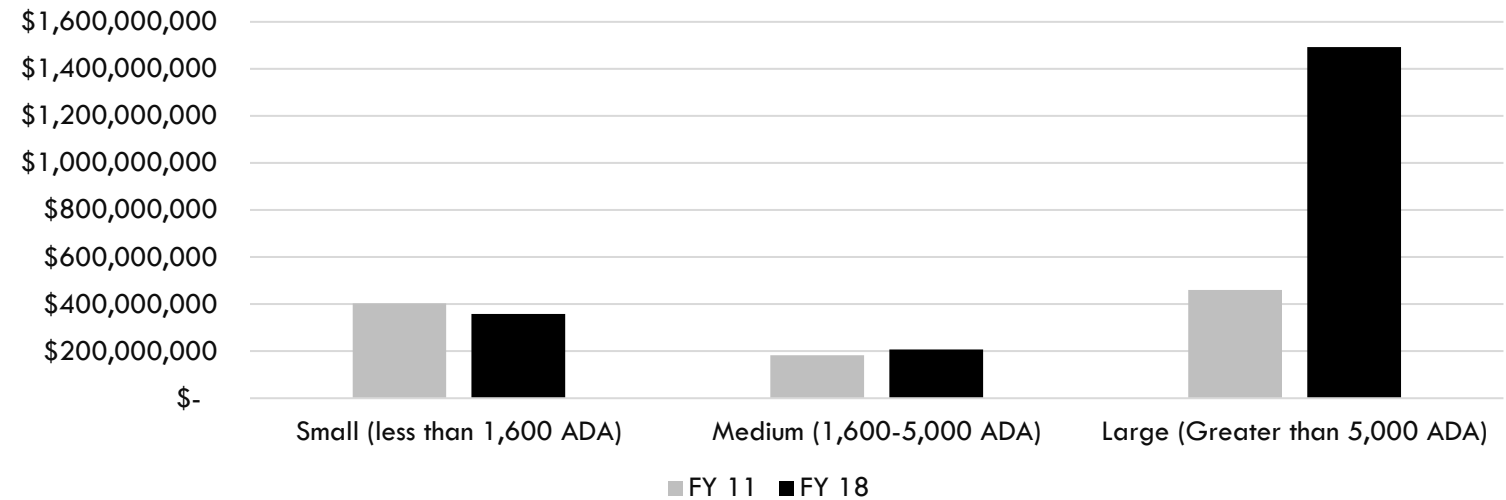
## Tier 1 and Tier 2 Recapture

Fiscal Year	Total Recapture Paid (in millions)	Recapture as a Percent of Total M&O Revenue	Total Districts Paying Recapture at Tier 1 Level	Total Districts Paying Recapture Including Tier 1 and Tier 2	Percent of Total ADA	Percent of Total WADA
2006	\$1,305.5	5%	142	142	12.5%	11.9%
2007	\$1,426.5	5%	150	150	12.7%	12.2%
2008	\$1,140.4	4%	163	178	13.2%	12.7%
2009	\$1,463.5	4%	182	191	17.5%	17.0%
2010	\$1,051.2	3%	152	201	11.4%	11.0%
2011	\$1,043.8	3%	162	213	12.6%	12.2%
2012	\$1,086.8	3%	168	222	13.6%	13.1%
2013	\$1,068.4	3%	152	216	12.2%	11.8%
2014	\$1,212.8	3%	150	226	12.3%	11.9%
2015	\$1,492.6	4%	158	241	14.1%	13.6%
2016	\$1,587.5	4%	166	231	14.7%	14.6%
2017	\$1,721.9	4%	155	234	16.6%	16.4%
2018*	\$2,059.2	5%	129	191	18.7%	18.1%
2019*	\$2,610.0	6%	144	214	23.4%	22.8%
2020*	\$3,234.9	7%	164	238	25.4%	24.7%
2021*	\$3,783.8	8%	177	259	26.8%	25.9%

\* Fiscal years 2018 through 2021 are estimated

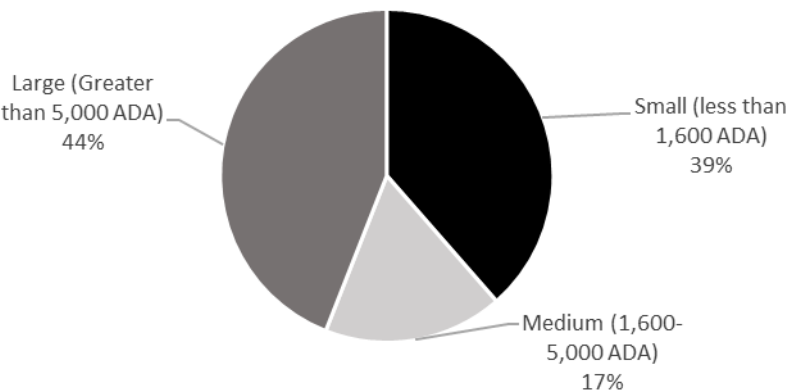
Note: No assumed impact from the \$9.0 billion contingency appropriation, which may decrease recapture in fiscal years 2020 and 2021, depending on implementation.

Comparison of Total Amount of Recapture Paid by Size of School in FY 11 and FY 18

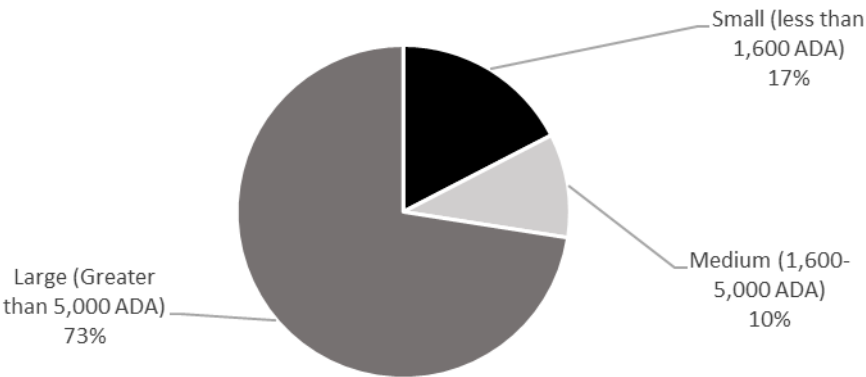


The graphs on this page provide a comparison of the total amount of recapture paid by district size in fiscal years 2011 and 2018. The categories include small districts, with an ADA of 1,600 or less; medium districts, with an ADA of 1,600-5,000; and large districts, with an ADA greater than 5,000. In this analysis, small districts experienced a decline in recapture during this time period, medium districts experienced a modest increase, **while the majority of the increase in recapture can be attributed to large districts, with a 225% increase in recapture amounts over 2011 levels.** The large increase in recapture payments remitted by large districts is likely due to rapidly growing property values in the affected districts, particularly in urban and suburban areas, mixed with a student population that is not experiencing corresponding robust growth. For example, of the 38 large districts that paid recapture in fiscal year 2018, 34.2 percent had experienced declining ADA in fiscal year 2018, while the same was only true of 15.4 percent of large districts in fiscal year 2011.

Fiscal Year 2011, Share of Total Recapture Paid by District Size  
Total: \$1.045 billion



Fiscal Year 2018, Share of Total Recapture Paid by District Size  
Total: \$2.059 billion



8. FSP Formula Items Established by Appropriation

Items established by appropriation which are not currently funded:

Item	Description	Program History		
		Biennium Last Funded	Appropriated/ Authorized Amount	Number of Districts Funded
Average Daily Attendance Decline	Additional state aid through the FSP formula available to districts with ADA that declines more than 2 percent between years. Statute limits the total amount available through ADA adjustments under this provision to the sum certain amount appropriated for this purpose.	2010–11 biennium	Up to \$22 million biennially	134 Districts for school year 2009-10

EDA and IFA Yield Increase

In addition to the items listed above, the yields for both of the FSP facilities funding programs, the Existing Debt Allotment (EDA) and the IFA, can be increased by appropriation. The current yield for IFA is \$35 per ADA per penny of tax effort for eligible debt service, and the current yield for EDA is \$37 per ADA per penny of tax effort for eligible debt service. The IFA yield was last increased in 1999 and was set at \$35. The EDA yield was increased by the Eighty-fifth Legislature by a statewide total of \$60 million in state aid above the previous yield of \$35.

Currently there are 401 districts receiving state aid through the EDA or IFA programs. The following table includes the number of districts receiving state aid through one of these programs and the percent of districts receiving state aid through at least one of these programs compared to all districts that have eligible debt service.

Districts Receiving State Aid from IFA or EDA				
	2018	2019	2020	2021
Number of Districts	405	401	377	344
Percent of All Districts with Eligible Debt Service Receiving State Aid	47.3%	47.5%	44.2%	40.2%

## 9. School District Adopted M&amp;O Rate and Tax Rate Election (TRE) Statistics

<b>Fiscal Year</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19*</b>
Number of Districts with Taxing Authority	1,024	1,021	1,020	1,019	1,019	1,018	1,018	1,018
Number of Districts at \$1.17 M&O Cap	<b>250</b>	<b>247</b>	<b>288</b>	<b>285</b>	<b>329</b>	<b>370</b>	<b>399</b>	<b>430</b>
Number of Districts Between \$1.04 and \$1.17	55	73	65	88	84	87	109	129
Number of Districts at \$1.04	<b>627</b>	<b>609</b>	<b>572</b>	<b>557</b>	<b>533</b>	<b>500</b>	<b>469</b>	<b>419</b>
Number of Districts Between \$1.00 and \$1.04	43	38	41	35	33	29	22	22
Number of Districts Below \$1.00	49	54	54	54	40	32	19	18
% of Districts at \$1.17 Cap	<b>24%</b>	<b>24%</b>	<b>28%</b>	<b>28%</b>	<b>32%</b>	<b>36%</b>	<b>39%</b>	<b>42%</b>
% Districts Between \$1.04 and \$1.17	5%	7%	6%	9%	8%	9%	11%	13%
% of Districts at \$1.04	<b>61%</b>	<b>60%</b>	<b>56%</b>	<b>55%</b>	<b>52%</b>	<b>49%</b>	<b>46%</b>	<b>41%</b>
% Districts Between \$1.00 and \$1.04	4%	4%	4%	3%	3%	3%	2%	2%
% Districts Below \$1.00	5%	5%	5%	5%	4%	3%	2%	2%
Number of Successful TREs	32	37	39	24	37	44	37	51

\*Data for FY19 was obtained through LBB data collection. Official Tax Year 2018 (FY19) adopted tax rates will be provided by the Comptroller in February 2019.

## 10. Significant General Revenue Funding Changes for Non-FSP Programs and Administration from the 2018-19 Base

House Bill 1 includes \$1,926.5 million in General Revenue Funds for Non-FSP Programs and Administration, a 4.8 percent decrease from the 2018-19 base. This decrease is primarily attributable to a \$166.7 million reduction in funding for the Technology and Instructional Materials Allotment.

For most programs, House Bill 1 funding levels are equivalent to 2018-19 base amounts and do not differ from agency requested amounts, which are largely based on 2018-19 base funding levels. Significant exceptions include the following:

- **School Safety:** House Bill 1 includes \$54.5 million in All Funds for TEA's new Safe and Healthy Schools Initiative, including \$42.5 million in Other Funds from the Economic Stabilization Fund and \$12.0 million in General Revenue Funds (see Selected Fiscal and Policy Issue # 12);
- **Special Education:** House Bill 1 includes \$50.5 million in General Revenue Funds for the new Special Education Supports Initiative to provide grants for compensatory services to students in accordance with the federal Individuals with Disabilities Education Act (see Selected Fiscal and Policy Issue # 13);
- **Communities in Schools:** House Bill 1 includes an additional \$10.0 million in General Revenue Funds;
- **Adult Charter School:** House Bill 1 includes an additional \$5.5 million in General Revenue Funds;
- **Texas Advanced Placement Initiative:** House Bill 1 includes an additional \$1.7 million in General Revenue Funds;
- **Instructional Materials Allotment:** House Bill 1 includes \$1,106.0 million for the Technology and Instructional Materials Fund (Fund 3), a decrease of 12.8 percent from the 2018-19 base funding level (see Selected Fiscal and Policy Issue #11). This would provide a level of instructional materials funding equivalent to fifty percent of the estimated transfer made by the State Board of Education from the Permanent School Fund to the Available School Fund.
- **Agency Administration:** Funding for agency administration (excluding State Board for Educator Certification and Certification Exam Administration) would be \$99.0 million in General Revenue Funds, a decrease of 6.4 percent from the 2018-19 base funding level. This decrease is in line with the agency's request and is largely attributable to the expiration of private grants and the expiration of one-time funding for cybersecurity that was excluded from the agency's base. Funding levels for administrative strategies are as follows:
  - **Agency Operations:** \$44.1 million in General Revenue Funds, a decrease of \$1.2 million, or 2.7 percent from the 2018-19 base funding level.
  - **Central Administration:** \$14.8 million in General Revenue Funds, a decrease of \$1.2 million, or 7.7 percent from the 2018-19 base funding level.
  - **Information Systems Technology:** \$40.2 million in General Revenue Funds, a decrease of \$4.3 million, or 9.6 percent from the 2018-19 base funding level.
- **FSP Transfer:** TEA is authorized by rider to transfer up to \$8.0 million in each fiscal year of the biennium from FSP to non-FSP programs. House Bill 1 includes reductions of \$0.9 million in Strategy A.2.1 in the 2020-21 biennium from Fund 193. These reductions account for the discretionary transfer of funds under Rider 25 to support the following programs in the 2018-19 biennium: Academic Decathlon, SBOE Online Tool, and TEKS Revision.
- **FSP Funding for the Texas Juvenile Justice Department:** House Bill 1 includes \$8.0 million in General Revenue Funds, a decrease of \$1.1 million, or 12.1 percent. This reduction is attributable to declining populations in secure juvenile facilities.

The following two pages provide a full listing of funding levels for TEA's Non-FSP Programs and Administration for 2020-21, including a comparison to 2018-19 base amounts.



TEA: Non-FSP Programs and Administration, General Revenue (in millions)					
Program	2018-19 Biennium	2020-21 House Bill 1 (Total)	2020-21 House Bill 1 (Change)	2020-21 House Bill 1 (Percent Change)	Notes
<b>Funding for Districts and Students</b>					
Safe and Healthy Schools	-	\$12.0	\$12.0	N/A	See Selected Fiscal and Policy Issue #12
Special Education Supports	-	\$50.5	\$50.5	N/A	See Selected Fiscal and Policy Issue #13
Student Success Initiative/Community Partnerships	\$11.0	\$11.0	-	-	See Appendix G
TX Advanced Placement	\$14.6	\$16.3	\$1.7	11.6%	
Pathways in Technology ECHS	\$5.0	\$5.0	-	-	See Appendix G
Texas Science, Technology, Engineering and Math	\$3.0	\$3.0	-	-	
Reading Excellence Team Pilot	\$1.4	\$1.4	-	-	See Appendix G
Reading-to-Learn Academies	\$5.5	\$5.5	-	-	See Appendix G
Literacy Achievement Academies	\$9.0	\$9.0	-	-	See Appendix G
Math Achievement Academies	\$9.0	\$9.0	-	-	See Appendix G
Texas Gateway and Online Resources	\$15.0	\$15.0	-	-	See Appendix G
Early College High School	\$6.0	\$6.0	-	-	
Gifted and Talented	\$0.9	\$0.9	-	-	
Adult Charter School	\$2.0	\$7.5	\$5.5	275.0%	
Academic Decathlon	\$0.4	\$0.0	(\$0.4)	(100.0%)	Removal of FSP discretionary transfer
SBOE Online Tool	\$0.1	\$0.0	(\$0.1)	(100.0%)	Removal of FSP discretionary transfer
Early Childhood School Readiness	\$3.5	\$3.5	-	-	See Appendix G
Early Childhood Education	\$1.0	\$1.0	-	-	
TEKS Review and Revision	\$0.4	\$0.0	(\$0.4)	(100.0%)	Removal of FSP discretionary transfer
Campus Turnaround Team	\$2.9	\$2.9	-	-	
Incentive Aid	\$2.0	\$2.0	-	-	
FitnessGram	\$2.0	\$2.0	-	-	
Educator Quality and Leadership	\$29.0	\$29.0	-	-	See Appendix G
Miscellaneous	\$2.2	\$2.2	-	-	
<b>Subtotal</b>	<b>\$125.90</b>	<b>\$194.70</b>	<b>\$68.80</b>	<b>54.65%</b>	
<b>Instructional Materials</b>					
Instructional Materials	\$1,248.2	\$1,081.4	(\$166.7)	(13.4%)	See Selected Fiscal and Policy Issue #11
Open Source Instructional Materials	\$20.0	\$20.0	-	-	
<b>Subtotal</b>	<b>\$1,268.2</b>	<b>\$1,101.4</b>	<b>(\$166.7)</b>	<b>(13.1%)</b>	
<b>Pass-through Grants to Non-Governmental Organizations</b>					
Communities in Schools	\$31.0	\$41.0	\$10.0	32.2	See Appendix G

Section 3

Teach for America	\$11.0	\$11.0	-	-	See Appendix G
Best Buddies	\$0.4	\$0.4	-	-	See Appendix G
Amachi	\$1.3	\$1.3	-	-	See Appendix G
Academic Innovation and Mentoring	\$4.5	\$4.5	-	-	See Appendix G
Mathcounts	\$0.4	\$0.4	-	-	See Appendix G
<b>Subtotal</b>	<b>\$48.6</b>	<b>\$58.6</b>	<b>\$10.0</b>	<b>20.6%</b>	
<b>Indirect Funding to TEA</b>					
Windham School District	\$104.4	\$104.4	-	-	See Exceptional Item #1, Section 5
State Funds for Assessment	\$97.4	\$97.4	-	-	
ESC Dyslexia Coordinators	\$0.3	\$0.3	-	-	See Appendix G
Council on Early Childhood Interventions	\$33.0	\$33.0	-	-	
Regional Day School-Deaf	\$66.3	\$66.3	-	-	
Infants and Toddlers with Disabilities	\$0.2	\$0.2	-	-	
ESC Core Services	\$23.8	\$23.8	-	-	
FSP Texas Juvenile Justice Department	\$9.1	\$8.0	(\$1.1)	(12.1%)	Attributable to declining populations in secure juvenile facilities.
Funding for Juvenile Justice Alternative Education	\$12.5	\$12.5	-	-	
School Lunch Matching	\$29.2	\$29.2	-	-	
Visually Impaired/ESCs	\$11.3	\$11.3	-	-	
Students with Autism	\$20.0	\$20.0	-	-	
Students with Dyslexia	\$20.0	\$20.0	-	-	
Non-Ed Community Based Support	\$2.0	\$2.0	-	-	
<b>Subtotal</b>	<b>\$429.5</b>	<b>\$428.4</b>	<b>(\$1.1)</b>	<b>(0.3%)</b>	
<b>Agency Administration</b>					
Agency Operations	\$45.3	\$44.1	(\$1.2)	(2.7%)	Decrease primarily attributable to expiration of private grants
Central Administration	\$16.0	\$14.8	(\$1.2)	(7.7%)	Decrease primarily attributable to expiration of private grants
Information Systems-Technology	\$44.5	\$40.2	(\$4.3)	(9.6%)	Decrease primarily attributable to expiration of one-time funding
State Board for Educator Certification	\$8.5	\$8.5	-	-	
Certification Exam Administration	\$37.5	\$37.5	-	-	
<b>Subtotal</b>	<b>\$151.8</b>	<b>\$145.1</b>	<b>(\$6.7)</b>	<b>(4.4%)</b>	
<b>Non-FSP GR Total*</b>	<b>\$2,024.0</b>	<b>\$1,928.2</b>	<b>(\$95.8)</b>	<b>(4.7%)</b>	

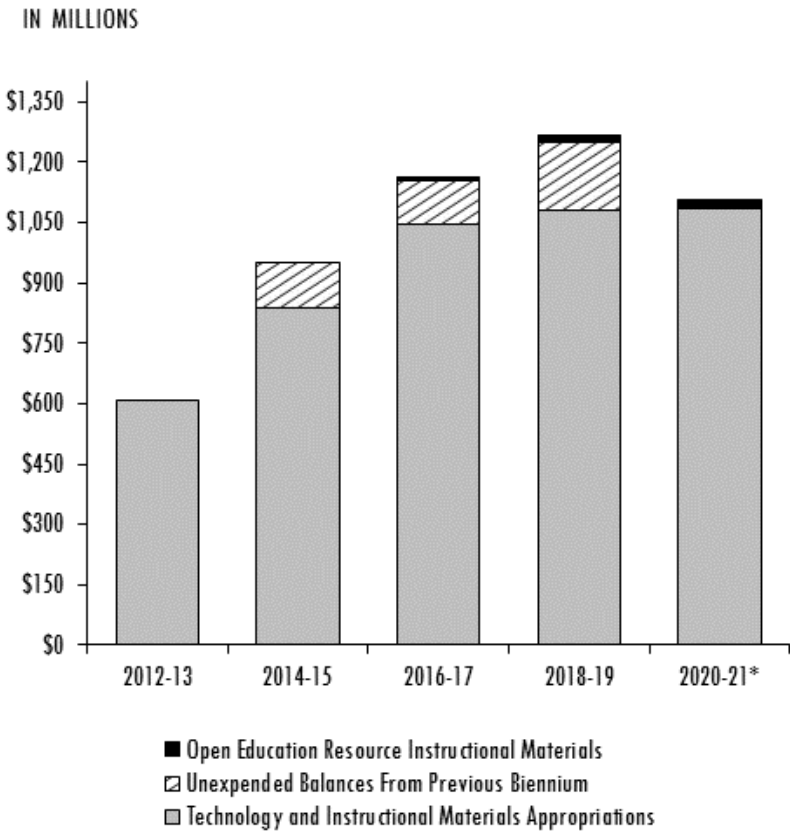
\*Note: In some cases amounts may differ due to rounding

11. Permanent School Fund, Available School Fund, and the Technology and Instructional Materials Allotment

Instructional Materials Funding in House Bill 1

House Bill 1 includes a total of \$1,106.0 million for instructional materials. The amount included in House Bill 1 for instructional materials is based on an allocation of 50 percent of the SBOE transfer, with the remaining 50 percent transferred for the ASF per capita distribution. The \$1,106.0 million appropriation for instructional materials represents a \$2.6 million increase from 2018-19 appropriated amounts, but a \$166.7 million decrease from 2018-19 actual amounts. This decrease is attributable to \$169.6 million in unexpended balances from fiscal year 2017 carried into the 2018-19 biennium. It is too early in the fiscal year for TEA to provide an estimate the unexpended balance likely to be carried forward from the 2018-19 biennium.

FIGURE #2: TECHNOLOGY AND INSTRUCTIONAL MATERIALS FUNDING, 2012-13 TO 2020-21 BIENNIA



Note: 2020-21 House Bill 1 appropriation excludes unexpended balance likely to be carried forward from the 2018-19 biennium.  
Source: Legislative Budget Board and Texas Education Agency

House Bill 1 would maintain 2018-19 base funding levels of \$20.0 million for the development of open education resource instructional materials and \$2.5 million for online college readiness materials. According to the agency, the agency is in the process of developing open educational resources for grades K-12 that local education agencies may choose to adopt. The bill would provide \$1.7 million for administrative and support costs.

General Land Office and State Board of Education Management of the Permanent School Fund

The Permanent School Fund (PSF) is a constitutionally dedicated fund for the support of public education used to fund the Technology and Instructional Materials Allotment (TIMA) and the Available School Fund (ASF) per capita distribution, which is a method of finance for the Foundation School Program. The PSF is managed by the State Board of Education (SBOE), which manages a portfolio of securities within the PSF, and the General Land Office (GLO), which manages PSF lands and generates revenue through the sale and lease of land; grazing, agricultural, commercial and right-of-way uses; and oil and gas revenues. With its portion of the PSF, the GLO may, at its discretion: (1) transfer to the SBOE-managed PSF portfolio; (2) transfer directly to the ASF; or (3) transfer to both the ASF and the SBOE-managed portfolio. In the past, the GLO has regularly made a transfer to the SBOE-managed portfolio, and has supplemented that transfer with a direct transfer to the ASF only twice, in fiscal years 2013 and 2019.

On August 21, 2018, the General Land Office’s School Land Board (SLB) voted to make no transfer of PSF revenue to the SBOE portfolio in the 20-21 biennium. Instead, the SLB voted to make a transfer of PSF revenue directly to the ASF of \$600 million for the biennium, which will be applied to the per capita distribution. In November 2018, the SLB voted to transfer an additional \$55.0 million in the 2020-21 biennium, for a total transfer of \$655 million.

Before every legislative session, the SBOE adopts a rate of distribution from its PSF corpus to the ASF for the upcoming biennium. Following the SLB’s decision to increase its transfer to \$655.0 million, the SBOE adopted a final distribution rate from the PSF to the ASF of 2.981 percent. Applying the rate of 2.981 percent to an estimated PSF corpus of \$37.1 billion is expected to generate a total biennial SBOE transfer of \$2.2 billion.

FIGURE #1: GENERAL LAND OFFICE (GLO) DISTRIBUTIONS OF REVENUE DERIVED FROM PERMANENT SCHOOL FUND (PSF) LAND (IN MILLIONS), FISCAL YEARS 2012 TO 2021

FISCAL YEAR	DIRECT GLO TRANSFER TO ASF	GLO TRANSFER TO SBOE-MANAGED PSF PORTFOLIO	TOTAL GLO TRANSFER FROM PSF REVENUE	TOTAL BIENNIAL GLO TRANSFER FROM PSF REVENUE
2012	\$0	\$250	\$250	\$800
2013	\$300	\$250	\$550	
2014	\$0	\$130	\$130	\$280
2015	\$0	\$150	\$150	
2016	\$0	\$175	\$175	\$375
2017	\$0	\$200	\$200	
2018	\$0	\$235	\$235	\$790
2019	\$300	\$255	\$555	
2020	\$300	\$10	\$310	\$655
2021	\$300	\$45	\$345	

Note: The Texas Constitution was amended in November 2011 to allow the GLO to transfer PSF-derived revenue directly to the ASF.  
Source: TEA’s Fiscal Year 2014 and 2017 Texas Permanent School Fund Reports

## 12. Safe and Healthy Schools Initiative

House Bill 1 includes \$54.5 million in all funds and 6.0 FTEs for the Texas Safe and Healthy Schools Initiative (see Rider #74). This includes:

### General Revenue Funds:

- \$10.0 million for Mental Health First Aid, Telemedicine, trauma-informed care and coordination of access to mental health providers;
- \$2.0 million and 6.0 FTEs for mental health supports and positive school culture;

### Economic Stabilization Funds:

- \$20.0 million for grants for mental health and positive school culture programs;
- \$5.0 million for one FTE at each Regional Education Service Center to support mental health and positive school culture;
- \$5.0 million for pilot grants for innovative school health and safety programs;
- \$10.0 million for matching grants to school districts and charters for facility hardening;
- \$2.5 million for grants to the Texas School Safety Center for emergency response audits

## 13. TEA's Special Education Strategic Plan and the Special Education Supports Program

House Bill 1 increases TEA's FTE cap from 885.0 to 939.0 and adds Rider 72, which species that the 54 FTEs in Strategy B.3.2, Agency Operations to support the agency's Special Education Strategic Plan are to be paid with federal Individuals with Disabilities Act (IDEA), Part B funds. The bill also increases the agency's authority to transfer IDEA, Part B funds under Rider 25 from \$5 million per biennium to \$10 million to support 54 federally funded FTEs to support the TEA Special Education Strategic Plan. The bill also includes \$50.5 million for Special Education Supports. This program would establish a fund to reimburse local education agencies (LEAs) for costs related to compensatory services for students who are identified as needing special education services who need increased support. TEA would develop a priority rubric to identify LEA needs and funding would be provided based on an LEA's score under the rubric.

In April 2018, TEA released the Special Education Strategic Plan. The plan was drafted in part to address corrective actions required by the United States Department of Education (USDOE) in a January 2018 letter that highlighted noncompliance with IDEA. According to TEA, the steps included in its Special Education Strategic Plan are broader and go farther than the requirements set forth by USDOE. The strategic plan has five primary areas of focus:

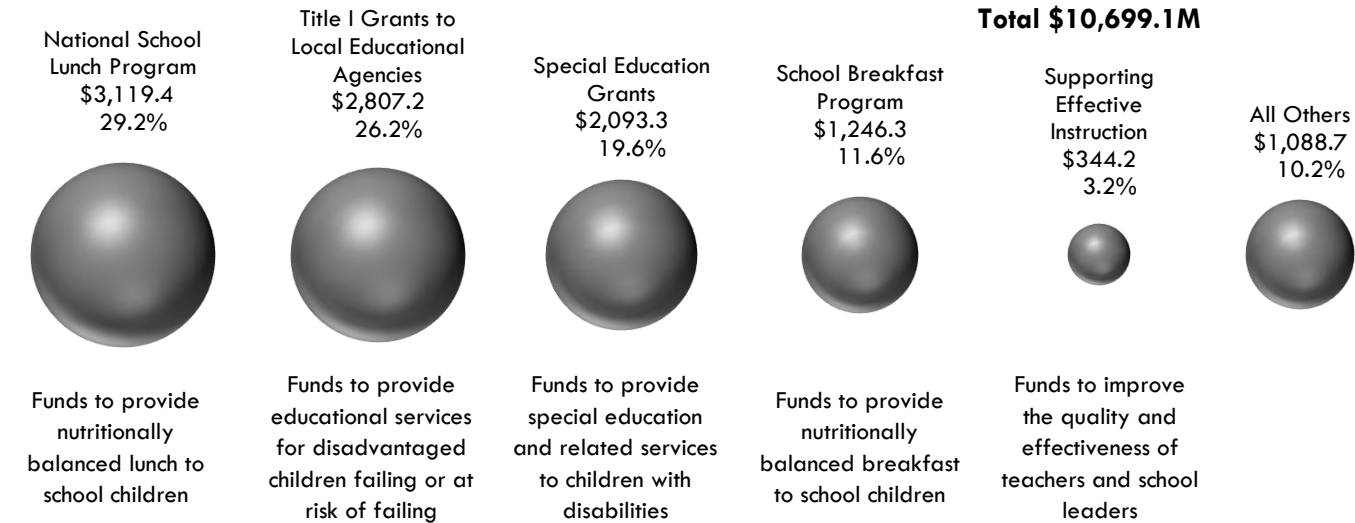
- **Monitoring:** Increasing the agency's capacity for monitoring LEAs, with a focus on student improvement.
- **Identification, Evaluation, and the offer of free appropriate public education:** Providing additional guidance and support to families and LEAs to assist with Child Find, a legally required step defined in IDEA, is the process of identifying and evaluating all children in a district who are suspected of having a disability and in need of special education and related services.
- **Training, Support, and Development:** Improving training and professional development for educators throughout the state.
- **Students, Family, and Community Engagement:** Facilitating stakeholder engagement to improve the development and implementation of services for students with disabilities.
- **Technical Assistance Networks:** Expanding technical assistance and support provided by agency staff and education service centers. Areas of focus include Child Find, community engagement, improving student outcomes, autism, small and rural LEAs, among other topics.

According to the agency, increasing the Rider 25 transfer authority by \$5 million for the 2020-21 biennium will allow the agency to pay for the additional FTEs. The transfer would result in a small reduction to the approximately \$2.0 billion in IDEA-B funded statewide programs, including a reduction in professional development for educators.

On October 19, 2018, USDOE notified TEA that it had reviewed the agency's Special Education Strategic Plan and provided the agency with guidance for additional steps that must be taken by TEA to comply with USDOE's finding of noncompliance. In response to USDOE's notification, Commissioner Morath outline steps the agency is taking to address outstanding issues, including a plan to expand community stakeholder engagement, to provide public updates on progress toward Strategic Plan deliverables, and to provide additional information to USDOE as required components are implemented.

Texas Education Agency

Summary of Federal Funds (2020 - 21)



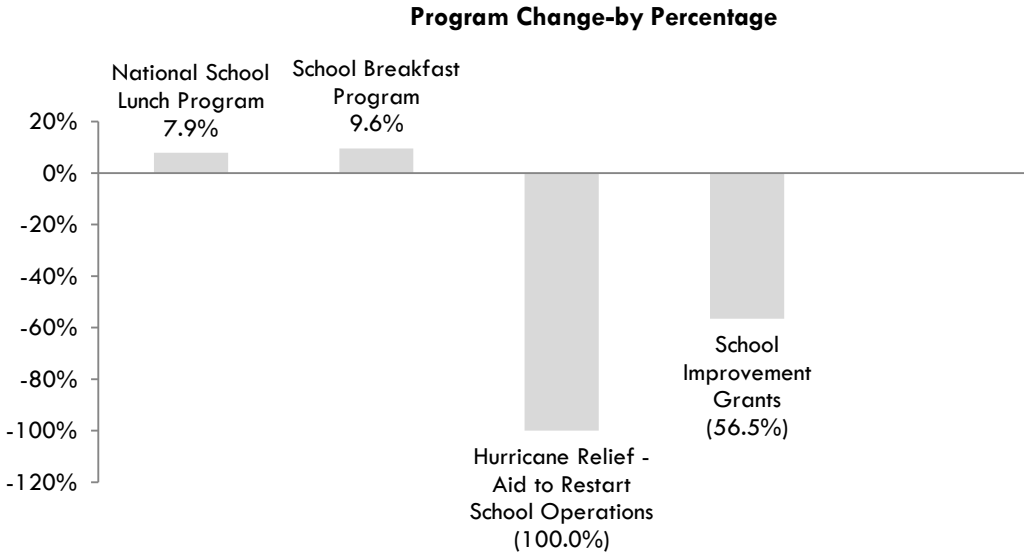
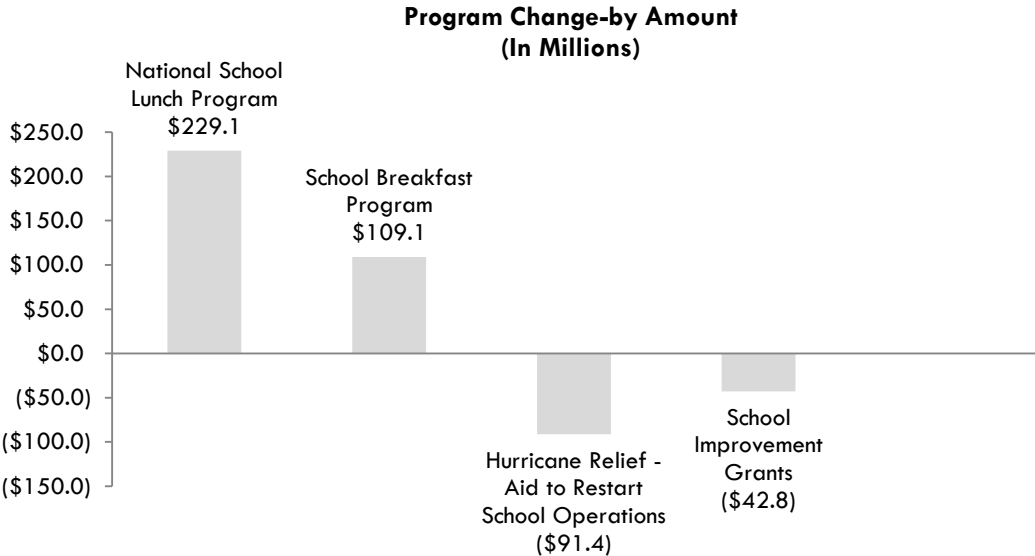
**Selected Federal Fiscal and Policy Issues**

Federal Funds estimates for the 2020-21 biennium include a \$338.2 million increase for National School Lunch and School Breakfast Programs based on historical growth and anticipated increased in eligibility and participation rates.

Funds for the Hurricane Relief - Aid to Restart School Operations were awarded on a one-time basis in fiscal year 2018 to assist in meeting the needs of those affected by federally declared disasters.

The Every Student Succeeds Act of 2015 created, modified, and eliminated some federal grant programs including the School Improvement Grants.

Programs with Significant Federal Funding Changes from 2018 - 19



Texas Education Agency  
Contracting Highlights

As of 8/31/2018, the Texas Education Agency had 85 active procurement contracts valued at \$601 million.

Summary of Contracts Awarded in Fiscal Years 2017-2018 and Reported to LBB Contracts Database<sup>1</sup>

(Dollar values rounded to the nearest tenth of a million)

	Number	Total Value	Average Value	% of total
Procurement Contracts	111	\$ 177.3	\$ 1.6	100%

Award Method

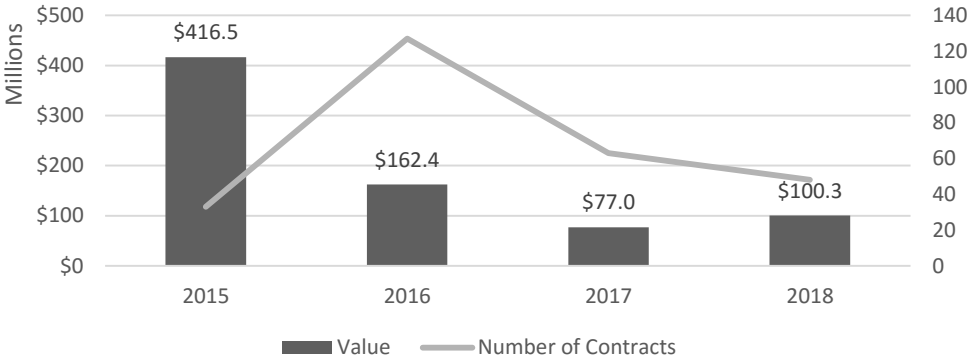
Total Competitive Contracts	66	\$ 62.3	\$ 0.9	35.2%
Total Non-Competitive	45	\$ 115.0	\$ 2.6	64.8%
Sole Source	12	\$ 7.9	\$ 0.7	4.5%
Interagency Agreement	33	\$ 107.1	\$ 3.2	60.4%

Procurement Category

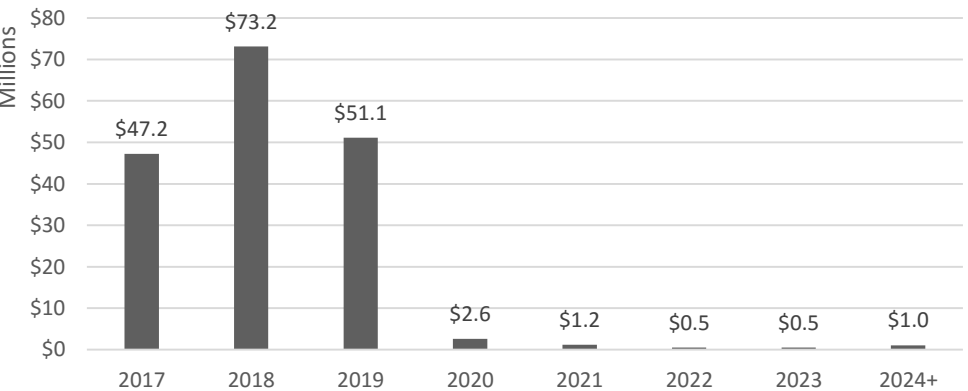
Information Technology	12	\$ 37.4	\$ 3.1	21.1%
Professional Services	6	\$ 2.8	\$ 0.5	1.6%
Goods	7	\$ 11.8	\$ 1.7	6.7%
Other Services	64	\$ 55.8	\$ 0.9	31.5%
Legal/Financial	18	\$ 9.7	\$ 0.5	5.5%
Consulting	4	\$ 59.9	\$ 15.0	33.8%

Revenue Generating Contracts	60	\$ 16.3	\$ 0.4	100%
Competitive	57	\$ 16.0	\$ 0.3	98.5%
Non-competitive	3	\$ 0.2	\$ 0.1	1.5%

Contracts Awarded By Fiscal Year



Funds Obligated by Contracts Awarded in FY 17-18 By Fiscal Year



<sup>1</sup>These figures reflect the total value of reported contracts awarded in FY 17-18 and reported to the LBB contracts database. Values can include planned expenditures for subsequent years and represent the amounts contracted which may include funds from sources other than appropriated or General Revenue Funds.



**Texas Education Agency**  
Contracting Highlights

(Dollar values rounded to the nearest tenth of a million)

<b>Largest Active Contracts from Previous Fiscal Years</b>	<b>Award Method</b>	<b>Total Value</b>	<b>% Change*</b>	<b>Award Date</b>	<b>Length</b>	<b>Renewals</b>	<b>Vendor</b>
1 Student Assessments	Competitive	\$ 323.1	17.0%	05/18/15	4 years	0	Educational Testing Service
2 Development and Admin. For TX Educator Certification Program	Competitive	\$ 119.2	0.0%	09/01/11	7 years	0	Educational Testing Service
3 Student Assessments	Competitive	\$ 59.4	0.0%	09/01/15	4 years	0	NCS Pearson Inc
4 Data Center Services	Interagency	\$ 53.1	0.0%	05/01/12	8 years	0	Dept. of Information Resources
5 Advanced Placement Exam Fee Subsidy	Sole Source	\$ 18.1	81.0%	03/01/16	1 year	0	The College Board

**Largest Competitive Contracts Awarded in FY 17-18**

1 AP Capstone Exam Fee Subsidy	Competitive	\$ 5.5	0.0%	08/31/18	1 month	0	The College Board
2 Instructional Leadership	Competitive	\$ 5.3	192.8%	03/20/17	1 year	1	Relay Graduate School of Ed.
3 Open Source Instructional Materials	Competitive	\$ 5.0	0.0%	12/24/16	1 year	0	Rice University
4 Open Source Instructional Materials	Competitive	\$ 4.9	0.0%	01/02/17	7 months	0	Edge Content LLC
5 CTE Resource Integration Project	Competitive	\$ 3.3	134.4%	02/13/17	1 year	1	Safal Partners Inc

**Largest Non-Competitive Contracts Awarded in FY 17-18**

1 Early Childhood Intervention I	Interagency	\$ 33.0	0.0%	09/01/17	2 years	0	Health and Human Services Comm.
2 Data Center Services	Interagency	\$ 26.9	0.0%	09/01/17	2 years	0	Dept. of Information Resources
3 Early Childhood Intervention I	Interagency	\$ 16.5	0.0%	09/01/16	1 year	0	Health and Human Services Comm.
4 Early Childhood Intervention II	Interagency	\$ 10.3	0.0%	09/01/17	2 years	0	Health and Human Services Comm.
5 Special Education-Data Mining of Students	Sole Source	\$ 4.4	0.0%	09/01/17	1 year	0	AvenirEducation Inc (SPEDx)

\*Note: The percent change is the difference in contract value between initial the award amount and the current contract value. This calculation includes contract amendments and renewals.

## Texas Education Agency Rider Highlights

### Modification of Existing Riders

3. **Foundation School Program Funding.** House Bill 1 updates sum certain appropriation, assumptions, and yields. Clarifies language relating to assumptions to be used by the Commissioner of Education in making allocations to school districts to specify that such allocations are based on estimates, and that the Commissioner of Education shall settle-up with school districts if the estimates vary from actual values of the relevant variables.
8. **Instructional Materials and Technology.** House Bill 1 updates the rider to provide instructional materials funding equivalent to fifty percent of the SBOE transfer, or \$1,101.4 million for the Technology and Instructional Materials Fund (Fund 3) for the 2020-21 biennium.
12. **Student Testing Program.** House Bill 1 updates the rider to remove language relating to legislation enacted by the Eighty-Fifth Legislature that eliminated certain assessment requirements. The bill also removes language related to unexpended balance authority that was related to liquidated damages assessed in the 2016-17 biennium.
22. **Communities in Schools.** The rider is updated to reflect the \$10.0 million increase in funding for the program.
24. **Appropriation Limited to Revenue Collections.** House Bill 1 would remove the Texas Virtual School Network from this rider. Existing Rider 45 appropriates to TEA all revenues received under Texas Education Code, Chapter 30A for the purpose of administering the Virtual School Network.
25. **Limitation on the Transfer and Use of Funds.** House Bill 1 updates the rider to increase the agency's authority to transfer funds from federal IDEA, Part B funds from \$5 million per biennium to \$10 million to support implementation of the agency's Special Education Strategic Plan. (For more information see Selected Fiscal and Policy Issue #16).
28. **FSP Funding for the Texas Juvenile Justice Department.** House Bill 1 reduces the amount of the transfer from TEA to the Texas Juvenile Justice Department from \$9.1 million to \$8.0 million for the biennium due to declining populations in secure juvenile facilities.
30. **Certification of Pre-kindergarten Expenditures.** House Bill 1 modifies language requiring TEA to develop a methodology in coordination with the LBB to calculate the amount of prekindergarten funding in the FSP eligible for maintenance of effort for Temporary Assistance for Needy Families (TANF) and state match for the Child Care Development Fund.
37. **Child Nutrition Program.** House Bill 1 updates the rider to align estimated federal funds amounts for the Texas Department of Agriculture's administration of the Child Nutrition Program with amounts included in TDA's 2020-21 recommended funding level.
43. **Student Success Initiative/Community Partnerships.** House Bill 1 updates the rider to include the new name for the program that is used by TEA.
46. **Texas Advanced Placement Initiative.** The rider is updated to reflect the \$1.7 million increase in funding for the program.

- 47. **Teach for America.** House Bill 1 increases the number of Teach for America (TFA) public school employees that the Legislature intends to be employed in Texas schools from 1,800 to 2,100 to more accurately reflect the number of TFA employees in Texas.
- 56. **Adult Charter Schools.** The rider is updated to reflect the \$5.5 million increase in funding for the program.
- 70. **FSP Formula Funding for High-Quality Prekindergarten Programs.** Modify language to specify that \$236.0 million constitutes an estimated 14 percent of prekindergarten entitlement in 2020-21 biennium.
- 77. **FSP Funding Contingent on a Distribution to the Available School Fund.** Update amounts estimated to be transferred from the School Land Board at the General Land Office directly to the Available School Fund in the 2020-21 biennium.

#### New Riders

- 72. **Funding for FTEs implementing the Special Education Strategic Plan.** House Bill 1 adds a rider specifying that 54 FTEs in Strategy B.3.2, Agency Operations for the implementation of the Special Education Strategic Plan are to be paid for with federal Individuals with Disabilities Act (IDEA), Part B funds.
- 73. **Reimbursement of Advisory Committee Members.** House Bill 1 adds a rider authorizing reimbursement of no more than \$45,000 for the biennium for members of Windham School District's Academic Credit and Industry Recognition Task Force. Reimbursement would be made from funds otherwise appropriated to Windham School District in Strategy B.2.4. The rider would require Windham to use videoconferencing, teleconferencing, and other methods to reduce costs to the maximum extent possible.
- 74. **Texas Safe and Healthy Schools Initiative.** House Bill 1 adds a rider specifying the use of \$54.5 million in All Funds for the Safe and Healthy Schools Initiative.
- 75. **Special Education Supports.** House Bill 1 adds a rider specifying the use of \$50.5 million in General Revenue Funds for the Special Education Supports program.
- 76. **Contingency for Behavioral Health Funds.** House Bill 1 adds a rider specifying that the Comptroller of Public Accounts shall not allow the expenditure of General Revenue Funds from Strategies B.2.2, Health and Safety, B.3.2, Agency Operations, and B.3.5 as identified in Article IX Section 10.04 if the LBB determines that the use of those funds does not satisfy the requirements of the Statewide Behavioral Health Strategic Plan and Coordinated Expenditures.

**Deleted Riders**

- 60. **Office of Complaints, Investigations, and Enforcement.** House Bill 1 deletes rider, as program has been established.
- 68. **Individuals with Disabilities Act State Maintenance of Financial Support.** House Bill 1 deletes rider, as rider is no longer necessary; rider provisions have not been and are not expected to be utilized.
- 69. **E-Rate Classroom Connectivity.** House Bill 1 deletes rider for one-time funding associated with this program.
- 70. **Collaborative Dual Credit Program Evaluation.** Rider was vetoed by the Governor.
- 71. **Windham School District Employer Contribution for Retirement.** House Bill 1 deletes rider appropriating funds for 1.5 percent TRS employer contribution in the 2018-19 biennium because funds are provided in House Bill 1 as part of agency's base in the 2020-21 biennium.
- 72. **Administrative Support to Protect Students from Inappropriate Educator Relationships.** Funding for this program is included in LBB recommended funding for the 2020-21 biennium.
- 74. **Administrative Support for School Improvement and Governance.** House Bill 1 deletes rider as program has been established.
- 75. **Support Student and Teacher Data Privacy and Cybersecurity.** House Bill 1 deletes rider for one-time funding associated with this program.
- 79. **Contingency for SB 419.** Bill was not enacted by the 85<sup>th</sup> Legislature.
- 80. **Contingency for House Bill 1005 and House Bill 515.** Rider no longer necessary as House Bill 1005 was enacted by the 85<sup>th</sup> Legislature.

**Texas Education Agency  
Items Not Included in Recommendations**

		2020-21 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2022-23
		GR & GR-D	All Funds	FTEs			
Agency Exceptional Items Not Included (in agency priority order)							
1)	Windham School District Program Expansion: Funding initiatives include: a six percent teacher/staff pay raise (\$5.5 million), expanding female offender vocational programs (\$2.3 million), increased funding for industry certification programs (\$0.6 million), year-round school programming (\$1.0 million), and expanding apprenticeship programs (\$0.7 million).	\$10,055,054	\$10,055,054	0.0	No	No	\$10,055,054
2)	Rider Request: New rider that would provide the agency with authority to transfer federal funds from a non-capital budget item to an existing or new capital budget item for the implementation of a unanticipated project, provided that the new project is 100 percent federally funded.	N/A	N/A	N/A	No	No	N/A
3)	Rider Request: Agency requests unexpended balance authority for several non-FSP programs.	N/A	N/A	N/A	No	No	N/A
TOTAL Items Not Included in Recommendations		\$10,055,054	\$10,055,054	0.0			\$10,055,054

**Texas Education Agency  
Appendices**

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\* Appendix is not included - no significant information to report

**Texas Education Agency**  
**Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS**

Strategy/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments (Optional)
FSP - EQUALIZED OPERATIONS A.1.1	\$41,579,400,000	\$51,454,900,000	\$9,875,500,000	23.8%	
FSP - EQUALIZED FACILITIES A.1.2	\$1,140,600,000	\$1,146,800,000	\$6,200,000	0.5%	
STATEWIDE EDUCATIONAL PROGRAMS A.2.1	\$250,961,772	\$258,460,874	\$7,499,102	3.0%	
ACHIEVEMENT OF STUDENTS AT RISK A.2.2	\$3,223,925,948	\$3,179,342,332	(\$44,583,616)	(1.4%)	
STUDENTS WITH DISABILITIES A.2.3	\$2,227,210,464	\$2,282,210,464	\$55,000,000	2.5%	
SCHOOL IMPROVEMENT & SUPPORT PGMS A.2.4	\$605,521,520	\$524,201,520	(\$81,320,000)	(13.4%)	
<b>Total, Goal A, PROVIDE ED SYS LDRSP GUID'CE RES'S</b>	<b>\$49,027,619,704</b>	<b>\$58,845,915,190</b>	<b>\$9,818,295,486</b>	<b>20.0%</b>	
ASSESSMENT & ACCOUNTABILITY SYSTEM B.1.1	\$166,963,743	\$166,383,475	(\$580,268)	(0.3%)	
TECHNOLOGY/INSTRUCTIONAL MATERIALS B.2.1	\$1,293,953,358	\$1,101,430,204	(\$192,523,154)	(14.9%)	
HEALTH AND SAFETY B.2.2	\$23,318,736	\$74,993,206	\$51,674,470	221.6%	
CHILD NUTRITION PROGRAMS B.2.3	\$4,056,801,322	\$4,394,965,742	\$338,164,420	8.3%	
WINDHAM SCHOOL DISTRICT B.2.4	\$104,365,440	\$104,365,440	\$0	0.0%	
IMPROVING EDUCATOR QUALITY/LDRSP B.3.1	\$382,573,389	\$382,573,389	\$0	0.0%	
AGENCY OPERATIONS B.3.2	\$138,625,921	\$137,408,717	(\$1,217,204)	(0.9%)	
STATE BOARD FOR EDUCATOR CERT B.3.3	\$8,547,870	\$8,547,870	\$0	0.0%	
CENTRAL ADMINISTRATION B.3.4	\$30,734,086	\$27,614,289	(\$3,119,797)	(10.2%)	
INFORMATION SYSTEMS - TECHNOLOGY B.3.5	\$81,876,665	\$79,211,328	(\$2,665,337)	(3.3%)	
CERTIFICATION EXAM ADMINISTRATION B.3.6	\$37,522,445	\$37,522,445	\$0	0.0%	
<b>Total, Goal B, PROVIDE SYSTEM OVERSIGHT &amp; SUPPORT</b>	<b>\$6,325,282,975</b>	<b>\$6,515,016,105</b>	<b>\$189,733,130</b>	<b>3.0%</b>	
<b>Grand Total, All Strategies</b>	<b>\$55,352,902,679</b>	<b>\$65,360,931,295</b>	<b>\$10,008,028,616</b>	<b>18.1%</b>	

**Texas Education Agency**  
**Funding Changes and Recommendations - House, by Strategy -- Supplemental**

Strategy/Fund Type/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments (Optional)
<b>FSP - EQUALIZED OPERATIONS A.1.1</b>	<b>\$41,579,400,000</b>	<b>\$51,454,900,000</b>	<b>\$9,875,500,000</b>	<b>23.8%</b>	
GENERAL REVENUE FUNDS	\$33,478,600,000	\$40,828,700,000	\$7,350,100,000	22.0%	The primary factors in the net GR increase for A.1.1, FSP - Equalized Operations and A.1.2, FSP - Equalized Facilities include the \$9.0 billion in contingency funding included in Rider 77, the cost of enrollment growth, the cost of the Austin ISD yield growth, and other adjustments, partially offset by savings due to projected property value growth, and Method of Finance Shifts due to projected increases in Other Funds (including Recapture Revenue and the Property Tax Relief Fund). See Selected Fiscal and Policy Issues #1 and #2.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$8,100,800,000	\$10,626,200,000	\$2,525,400,000	31.2%	Other Funds change results from estimated increases of \$2,353.7 million in Recapture Revenue and \$171.7 million in the Property Tax Relief Fund No. 304.
<b>FSP - EQUALIZED FACILITIES A.1.2</b>	<b>\$1,140,600,000</b>	<b>\$1,146,800,000</b>	<b>\$6,200,000</b>	<b>0.5%</b>	Facilities funds are projected to increase, primarily due to the annualization of increased facilities funding provided in fiscal year 2019.
GENERAL REVENUE FUNDS	\$1,140,600,000	\$1,146,800,000	\$6,200,000	0.5%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>STATEWIDE EDUCATIONAL PROGRAMS A.2.1</b>	<b>\$250,961,772</b>	<b>\$258,460,874</b>	<b>\$7,499,102</b>	<b>3.0%</b>	
GENERAL REVENUE FUNDS	\$91,083,864	\$97,543,864	\$6,460,000	7.1%	Change is primarily attributable to the removal of 2018-19 discretionary FSP transfer, an increase of \$5.5 million for Adult Charter School, and an increase of \$1.7 million for the Texas Advanced Placement Initiative.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$131,843,908	\$132,883,010	\$1,039,102	0.8%	Primarily attributable to an increase in federal career and technical education grants of \$1.9 million.
OTHER FUNDS	\$28,034,000	\$28,034,000	\$0	0.0%	
<b>ACHIEVEMENT OF STUDENTS AT RISK A.2.2</b>	<b>\$3,223,925,948</b>	<b>\$3,179,342,332</b>	<b>(\$44,583,616)</b>	<b>(1.4%)</b>	
GENERAL REVENUE FUNDS	\$1,300,000	\$1,300,000	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$3,222,625,948	\$3,178,042,332	(\$44,583,616)	(1.4%)	Decrease is primarily attributable to decrease in School Improvement Grants.
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>STUDENTS WITH DISABILITIES A.2.3</b>	<b>\$2,227,210,464</b>	<b>\$2,282,210,464</b>	<b>\$55,000,000</b>	<b>2.5%</b>	
GENERAL REVENUE FUNDS	\$152,797,740	\$202,797,740	\$50,000,000	32.7%	Increase attributable to funding for Special Education Supports (see Selected Fiscal and Policy Issue #16).



**Texas Education Agency**  
**Funding Changes and Recommendations - House, by Strategy -- Supplemental**

Strategy/Fund Type/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments (Optional)
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$2,074,241,978	\$2,079,241,978	\$5,000,000	0.2%	Increase due to additional \$5.0 million of Rider 25 transfer authority from IDEA program to administrative strategy (See Selected Fiscal and Policy Issue #13).
OTHER FUNDS	\$170,746	\$170,746	\$0	0.0%	
<b>SCHOOL IMPROVEMENT &amp; SUPPORT PGMS A.2.4</b>	<b>\$605,521,520</b>	<b>\$524,201,520</b>	<b>(\$81,320,000)</b>	<b>(13.4%)</b>	
GENERAL REVENUE FUNDS	\$61,446,991	\$71,546,991	\$10,100,000	16.4%	Increase due to an additional \$10.0 million for Communities in Schools.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$544,059,529	\$452,639,529	(\$91,420,000)	(16.8%)	Primarily attributable to exclusion of one-time grants for Hurricane Harvey recovery efforts.
OTHER FUNDS	\$15,000	\$15,000	\$0	0.0%	
<b>Total, Goal A, PROVIDE ED SYS LDRSP GUID'CE RES'S</b>	<b>\$49,027,619,704</b>	<b>\$58,845,915,190</b>	<b>\$9,818,295,486</b>	<b>20.0%</b>	
GENERAL REVENUE FUNDS	\$34,925,828,595	\$42,348,688,595	\$7,422,860,000	21.3%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$5,972,771,363	\$5,842,806,849	(\$129,964,514)	(2.2%)	
OTHER FUNDS	\$8,129,019,746	\$10,654,419,746	\$2,525,400,000	31.1%	
<b>ASSESSMENT &amp; ACCOUNTABILITY SYSTEM B.1.1</b>	<b>\$166,963,743</b>	<b>\$166,383,475</b>	<b>(\$580,268)</b>	<b>(0.3%)</b>	
GENERAL REVENUE FUNDS	\$100,077,767	\$99,497,499	(\$580,268)	(0.6%)	Transfer of funds for Article IX Sec. 18.42 (Contingency for Senate Bill 1839), 2018-19 GAA to correct Strategy B.3.5, Information Systems - Technology.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$66,885,976	\$66,885,976	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>TECHNOLOGY/INSTRUCTIONAL MATERIALS B.2.1</b>	<b>\$1,293,953,358</b>	<b>\$1,101,430,204</b>	<b>(\$192,523,154)</b>	<b>(14.9%)</b>	
GENERAL REVENUE FUNDS	\$1,268,153,358	\$1,101,430,204	(\$166,723,154)	(13.1%)	Recommendations provide 50 percent of the SBOE's PSF distribution to the ASF; see Selected Fiscal and Policy Issue #11.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$800,000	\$0	(\$800,000)	(100.0%)	
OTHER FUNDS	\$25,000,000	\$0	(\$25,000,000)	(100.0%)	Decrease of \$25.0 million in one-time funding from Economic Stabilization Fund for E-Rate program.
<b>HEALTH AND SAFETY B.2.2</b>	<b>\$23,318,736</b>	<b>\$74,993,206</b>	<b>\$51,674,470</b>	<b>221.6%</b>	
GENERAL REVENUE FUNDS	\$23,318,736	\$32,493,206	\$9,174,470	39.3%	Increase attributable to funding for Safe and Healthy Schools Initiative (see Selected Fiscal and Policy Issue #12), partially offset by a reduction in the transfer from TEA to the Texas Juvenile Justice Department due to declining populations in secure juvenile facilities.
GR DEDICATED	\$0	\$0	\$0	0.0%	

**Texas Education Agency**  
**Funding Changes and Recommendations - House, by Strategy -- Supplemental**

Strategy/Fund Type/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments (Optional)
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$42,500,000	\$42,500,000	100.0%	Increase attributable to funding for Safe and Healthy Schools Initiative (see Selected Fiscal and Policy Issue #12).
<b>CHILD NUTRITION PROGRAMS B.2.3</b>	<b>\$4,056,801,322</b>	<b>\$4,394,965,742</b>	<b>\$338,164,420</b>	<b>8.3%</b>	
GENERAL REVENUE FUNDS	\$29,236,682	\$29,236,682	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$4,027,564,640	\$4,365,729,060	\$338,164,420	8.4%	Increase in School Breakfast and School Lunch programs.
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>WINDHAM SCHOOL DISTRICT B.2.4</b>	<b>\$104,365,440</b>	<b>\$104,365,440</b>	<b>\$0</b>	<b>0.0%</b>	
GENERAL REVENUE FUNDS	\$104,365,440	\$104,365,440	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>IMPROVING EDUCATOR QUALITY/LDRSP B.3.1</b>	<b>\$382,573,389</b>	<b>\$382,573,389</b>	<b>\$0</b>	<b>0.0%</b>	
GENERAL REVENUE FUNDS	\$40,400,000	\$40,400,000	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$342,173,389	\$342,173,389	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>AGENCY OPERATIONS B.3.2</b>	<b>\$138,625,921</b>	<b>\$137,408,717</b>	<b>(\$1,217,204)</b>	<b>(0.9%)</b>	
GENERAL REVENUE FUNDS	\$45,267,218	\$45,559,140	\$291,922	0.6%	Decrease attributable to the expiration of private grants and the 2020-21 reallocation of funds from administrative to program strategies
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$44,372,459	\$42,863,333	(\$1,509,126)	(3.4%)	Change is attributable to agency's discretionary transfer of program funds to administrative strategy 2018-19.
OTHER FUNDS	\$48,986,244	\$48,986,244	\$0	0.0%	
<b>STATE BOARD FOR EDUCATOR CERT B.3.3</b>	<b>\$8,547,870</b>	<b>\$8,547,870</b>	<b>\$0</b>	<b>0.0%</b>	
GENERAL REVENUE FUNDS	\$8,547,870	\$8,547,870	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	

**Texas Education Agency**  
**Funding Changes and Recommendations - House, by Strategy -- Supplemental**

Strategy/Fund Type/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments (Optional)
<b>CENTRAL ADMINISTRATION B.3.4</b>	<b>\$30,734,086</b>	<b>\$27,614,289</b>	<b>(\$3,119,797)</b>	<b>(10.2%)</b>	
GENERAL REVENUE FUNDS	\$16,030,746	\$14,790,471	(\$1,240,275)	(7.7%)	Decrease is largely attributable to the expiration of private grants.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$11,888,063	\$10,008,541	(\$1,879,522)	(15.8%)	Change is attributable to discretionary transfer of program funds to administrative strategy in 2018-19.
OTHER FUNDS	\$2,815,277	\$2,815,277	\$0	0.0%	
<b>INFORMATION SYSTEMS - TECHNOLOGY B.3.5</b>	<b>\$81,876,665</b>	<b>\$79,211,328</b>	<b>(\$2,665,337)</b>	<b>(3.3%)</b>	
GENERAL REVENUE FUNDS	\$44,472,607	\$41,142,748	(\$3,329,859)	(7.5%)	Change is attributable to decreases of \$5.0 million for the expiration of one-time funding for cybersecurity and \$0.2 million for the expiration of a private grant, partially offset by an increase of \$0.6 million to move funds for the implementation of SB 1839 ( Eighty-Fifth Legislature) in an administrative strategy and \$0.3 million for the transfer of Rider 45 Virtual School Network funds from administrative strategy B.3.5 to B.3.2 using the agency's appropriation transfer authority.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$27,941,647	\$28,606,169	\$664,522	2.4%	Change is attributable to discretionary transfer of program funds to administrative strategy.
OTHER FUNDS	\$9,462,411	\$9,462,411	\$0	0.0%	
<b>CERTIFICATION EXAM ADMINISTRATION B.3.6</b>	<b>\$37,522,445</b>	<b>\$37,522,445</b>	<b>\$0</b>	<b>0.0%</b>	
GENERAL REVENUE FUNDS	\$37,522,445	\$37,522,445	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>Total, Goal B, PROVIDE SYSTEM OVERSIGHT &amp; SUPPORT</b>	<b>\$6,325,282,975</b>	<b>\$6,515,016,105</b>	<b>\$189,733,130</b>	<b>3.0%</b>	
GENERAL REVENUE FUNDS	\$1,717,392,869	\$1,554,985,705	(\$162,407,164)	(9.5%)	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$4,521,626,174	\$4,856,266,468	\$334,640,294	7.4%	
OTHER FUNDS	\$86,263,932	\$103,763,932	\$17,500,000	20.3%	
<b>Grand Total, All Agency</b>	<b>\$55,352,902,679</b>	<b>\$65,360,931,295</b>	<b>\$10,008,028,616</b>	<b>18.1%</b>	
GENERAL REVENUE FUNDS	\$36,643,221,464	\$43,903,674,300	\$7,260,452,836	19.8%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$10,494,397,537	\$10,699,073,317	\$204,675,780	2.0%	
OTHER FUNDS	\$8,215,283,678	\$10,758,183,678	\$2,542,900,000	31.0%	

**Texas Education Agency  
Summary of Federal Funds - House  
(Dollar amounts in Millions)**

**Appendix B**

<b>Program</b>	<b>Est 2018</b>	<b>Bud 2019</b>	<b>Rec 2020</b>	<b>Rec 2021</b>	<b>2018-19 Base</b>	<b>2020-21 Rec</b>	<b>2020-21 Rec % Total</b>	<b>Recommended Over/(Under) Base</b>	<b>% Change from Base</b>
National School Lunch Program <sup>1</sup>	\$1,407.9	\$1,482.4	\$1,542.4	\$1,577.1	\$2,890.3	\$3,119.4	<b>29.2%</b>	<b>\$229.1</b>	<b>7.9%</b>
Title I Grants to Local Educational Agencies	\$1,374.0	\$1,434.0	\$1,396.9	\$1,410.3	\$2,808.0	\$2,807.2	<b>26.2%</b>	<b>(\$0.9)</b>	<b>(0.0%)</b>
Special Education Grants to States	\$1,027.7	\$1,065.6	\$1,046.7	\$1,046.7	\$2,093.3	\$2,093.3	<b>19.6%</b>	<b>\$0.0</b>	<b>0.0%</b>
School Breakfast Program <sup>1</sup>	\$552.9	\$584.3	\$613.9	\$632.4	\$1,137.2	\$1,246.3	<b>11.6%</b>	<b>\$109.1</b>	<b>9.6%</b>
Improving Teacher Quality State Grants	\$167.9	\$176.2	\$172.1	\$172.1	\$344.2	\$344.2	<b>3.2%</b>	<b>\$0.0</b>	<b>0.0%</b>
English Language Acquisition Grant Programs	\$112.1	\$113.1	\$112.6	\$112.6	\$225.2	\$225.2	<b>2.1%</b>	<b>\$0.0</b>	<b>0.0%</b>
21st Century Community Learning Centers	\$107.1	\$107.2	\$107.2	\$107.2	\$214.3	\$214.3	<b>2.0%</b>	<b>\$0.0</b>	<b>0.0%</b>
Vocational Education Basic Grants to States	\$64.7	\$68.6	\$67.6	\$67.6	\$133.3	\$135.2	<b>1.3%</b>	<b>\$1.9</b>	<b>1.4%</b>
Student Support and Academic Enrichment Program	\$36.3	\$97.4	\$66.8	\$66.8	\$133.7	\$133.7	<b>1.2%</b>	<b>\$0.0</b>	<b>0.0%</b>
Migrant Education Basic State Grant Program	\$52.4	\$47.1	\$49.8	\$49.8	\$99.5	\$99.5	<b>0.9%</b>	<b>\$0.0</b>	<b>0.0%</b>
Public Charter Schools	\$48.0	\$38.2	\$43.1	\$43.1	\$86.2	\$86.2	<b>0.8%</b>	<b>\$0.0</b>	<b>0.0%</b>
State Assessments and Enhanced Assessment Instruments	\$23.4	\$23.1	\$23.2	\$23.2	\$46.5	\$46.5	<b>0.4%</b>	<b>\$0.0</b>	<b>0.0%</b>
Special Education-Preschool Grants	\$22.0	\$22.0	\$22.0	\$22.0	\$44.0	\$44.0	<b>0.4%</b>	<b>\$0.0</b>	<b>0.0%</b>
School Improvement Grants <sup>2</sup>	\$40.0	\$35.7	\$23.1	\$9.8	\$75.7	\$32.9	<b>0.3%</b>	<b>(\$42.8)</b>	<b>(56.5%)</b>
Rural and Low Income Schools Program	\$8.2	\$8.1	\$8.2	\$8.2	\$16.3	\$16.3	<b>0.2%</b>	<b>\$0.0</b>	<b>0.0%</b>
Gaining Early Awareness & Readiness for Undergraduate Programs	\$8.2	\$6.2	\$7.2	\$7.2	\$14.3	\$14.3	<b>0.1%</b>	<b>\$0.0</b>	<b>0.0%</b>
Education for Homeless Children and Youth	\$7.0	\$6.3	\$6.6	\$6.6	\$13.3	\$13.3	<b>0.1%</b>	<b>\$0.0</b>	<b>0.0%</b>
All Other Grants <sup>3</sup>	\$104.4	\$14.6	\$13.7	\$13.7	\$119.0	\$27.3	<b>0.7%</b>	<b>(\$91.7)</b>	<b>(77.1%)</b>
<b>TOTAL:</b>	<b>\$5,268.4</b>	<b>\$5,330.4</b>	<b>\$5,323.0</b>	<b>\$5,376.1</b>	<b>\$10,494.4</b>	<b>\$10,699.1</b>	<b>100.0%</b>	<b>\$204.7</b>	<b>2.0%</b>

1. The National School Lunch and School Breakfast programs include a \$338.2 million increase for the 2020-21 biennium based on historical growth and anticipated increase in eligibility and participation rates.

2. The Every Student Succeeds Act of 2015 created, modified, and eliminated some federal grant programs including the School Improvement Grants.

3. All Other Grants include \$91.4 million for Hurricane Relief - Aid to Restart School Operations. The grant was awarded on a one-time basis in fiscal year 2018 and are not included in LBB recommendations for the 2020-21 biennium.

**Texas Education Agency  
FTE Highlights**

<b>Full-Time-Equivalent Positions</b>	<b>Expended 2017</b>	<b>Estimated 2018</b>	<b>Budgeted 2019</b>	<b>Recommended 2020</b>	<b>Recommended 2021</b>
Cap	875.0	881.0	885.0	939.0	939.0
Actual/Budgeted	797.4	800.8	885.0	NA	NA

<b>Schedule of Exempt Positions (Cap)</b>					
Commissioner of Education	\$220,375	\$234,678	\$234,678	\$234,678	\$234,678
Chief Investment Officer (Permanent School Fund)	\$265,475	\$384,375	\$384,375	\$384,375	\$384,375

**Notes:**

- a) In addition to budgeted amounts, TEA added 54 special education-focused employees above its FTE cap in FY 2019. The agency relied on authority provided under Article IX, Section 6.10(h) of the 2018-19 General Appropriations Act, which allows an agency to exceed its FTE cap if it is implementing an unanticipated project that is 100 percent federally funded. Recommendations include increasing FTE cap to account for new federally funded FTEs. See Selected Fiscal and Policy Issue #13.
- b) Recommendations include the deletion of Rider 75, Support Student and Teacher Data Privacy and Cybersecurity, which temporarily increased TEA's FTE cap by 2.0 in 2018 and 6.0 in 2019.
- c) The State Auditor's Office Report, Executive Compensation at State Agencies (Report 18-705, August 2018), indicates a market average salary of \$261,152 for the Commissioner of Education position at the Texas Education Agency. The agency is not requesting any changes to this exempt position.
- d) TEA has requested that the PSF's Chief Investment Officer's salary ceiling to be set at \$416,401 in fiscal years 2020 and 2021, the same level as the ceiling for the ERS Chief Investment Officer. The State Auditor's Office Report, Executive Compensation at State Agencies (Report 18-705, August 2018), does not indicate market average salaries based on similar professional positions for this position.

**Texas Education Agency  
Performance Measure Highlights**

**Appendix D**

	Expended 2017	Estimated 2018	Budgeted 2019	Recommended 2020	Recommended 2021
<ul style="list-style-type: none"> <li>Percent of Kindergarten Students Identified as At-Risk for Dyslexia or Other Reading Difficulty</li> </ul>	0.00%	2.90%	2.90%	3.00%	3.20%
Measure Explanation: <b>New measure</b> identifies the percentage of kindergarten students who are determined to be at risk for dyslexia or other reading difficulties.					
<ul style="list-style-type: none"> <li>Percent of Grade 1 Students Identified as At-Risk for Dyslexia or Other Reading Difficulty</li> </ul>	0.00%	2.90%	2.90%	3.00%	3.20%
Measure Explanation: <b>New measure</b> identifies the percentage of grade 1 students who are determined to be at risk for dyslexia or other reading difficulties.					
<ul style="list-style-type: none"> <li>Number of Inappropriate Relationship Investigations Opened</li> </ul>	0.00	425.00	550.00	675.00	800.00
Measure Explanation: <b>New measure</b> identifies the total number of investigations opened pertaining to a reported inappropriate relationship between a certified educator and a student.					
<ul style="list-style-type: none"> <li>Number of P-TECH and ICIA-Designated Schools</li> </ul>	0.00	0.00	0.00	50.00	60.00
Measure Explanation: <b>New measure</b> identifies the number of campuses that have been designated as either Pathways in Technology Early College High Schools or Industry Cluster Innovative					
<ul style="list-style-type: none"> <li>Number of Students Enrolled in P-TECH and ICIA-Designated Schools</li> </ul>	0.00	0.00	0.00	12,800.00	14,800.00
Measure Explanation: <b>New measure</b> identifies the number of students enrolled in Pathways in Technology Early College High Schools or Industry Cluster Innovative Academies.					
<ul style="list-style-type: none"> <li>Number of Students Served in Early Childhood School Ready Online Engage Platform</li> </ul>	0.00	0.00	0.00	186,440.00	186,440.00
Measure Explanation: <b>New measure</b> identifies the number of Pre-Kindergarten students served in Early Childhood School Ready online engage platform, which is used to identify pre-					
<ul style="list-style-type: none"> <li>Number of Statutory Provisions from which Districts of Innovation enrolling a majority of students statewide are exempt</li> </ul>	0.00	0.00	0.00	3.00	3.00
Measure Explanation: <b>New measure</b> that would identify the top exemptions from which Districts of Innovation exempted from through their local district of innovation plan.					

**Texas Education Agency  
Summary of Ten Percent Biennial Base Reduction Options**

**Appendix E**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
1)	STAAR Liquidated Damages	The liquidated damages collected during the 2018-2019 biennium were used to fund the assessment contract. This reduction does not negatively impact the agency.	\$2,120,540	\$2,120,540	0.0	\$0	100.0%	\$2,120,540	N
2)	FSP - Texas Juvenile Justice Dept	TJJD receives funds from TEA for schools located in JJD's residential facilities. TEA reports that a 10 percent reduction would require JJD to eliminate certain contracts for educational services, dual credit opportunities, and reducing certain teaching and administrative positions. TEA reports that JJD would be unable to meet certain educational mandates with such reductions, particularly with regard to special education.	\$911,874	\$911,874	0.0	\$0	10.0%	\$9,118,736	N
3)	Funding for Juvenile Justice Alternative Education	TJJD receives funds from TEA to reimburse probation departments operating JJAEPs. TEA reports that the impact of this reduction would vary by jurisdiction based on local conditions, but may include reduction of services and staffing levels, loss of discretionary program sites, and elimination of summer school programs.	\$1,250,000	\$1,250,000	0.0	\$0	10.0%	\$12,500,000	N
4)	Windham School District	A 10% funding reduction would require a reduction of 64 teachers as well as 32 administrative and support staff for \$4.8 million. Capital, travel and equipment reductions would total \$0.4 million. The effect to WSD would be 8,192 fewer students served, a 12% reduction in contact hours and a 10% reduction in offenders passing the High School Equivalency (HSE). TEA reports that the reduction of teachers would result in higher recidivism rates, poorer employment outcomes for released offenders, delayed releases for those offenders for whom completion of the pre-release class is a prerequisite for release, and an increase of offender behavioral problems as offender idleness increases.	\$10,436,544	\$10,436,544	0.0	\$0	10.0%	\$104,365,440	N

**Texas Education Agency  
Summary of Ten Percent Biennial Base Reduction Options**

**Appendix E**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
5)	Public School Educators SB1839	TEA reports that if funding for this item is reduced by 10 percent, Information Technology Services would be unable to complete the necessary system modifications that are required to more quickly process comparable teaching certifications from out- of- state. Therefore, the process for out- of- state teachers who wish to receive comparable teaching certificates will take longer which could reduce the number of eligible educators in the state of Texas.	\$58,026	\$58,026	0.0	\$0	10.0%	\$580,268	N
6)	Texas Advanced Placement Initiative	This program provides subsidies to students to help them pay for the cost of the Advanced Placement (AP) and International Baccalaureate (IB) exams and providing teacher AP and IB training. AP exam scores of "3" or higher must be accepted by Texas institutions of higher education, thereby lowering the cost of higher education. The state currently pays for 140,000 student tests subsidies each year, largely provided to economically disadvantaged students. TEA estimates this 12.5% funding reduction will negatively impact student outcomes by increasing the cost of AP exams for low-income students decreasing the number of students taking the AP/IB exam, the number of teachers training to provide these courses, and the number of courses being offered in districts statewide.	\$1,825,000	\$1,825,000	0.0	\$0	12.5%	\$14,600,000	N
7)	FitnessGram Program	TEA currently allows school districts and charter schools to report statutorily required physical fitness assessment results either through the web-based "Fitnessgram 10" software or through the TEA's Physical Fitness Assessment Initiative (PFAI) web application. The "Fitnessgram 10" software program was created by The Cooper Institute. Each year TEA enters into a licensing agreement with The Cooper Institute for access to the program. TEA then provides the Fitnessgram program free of charge to school districts and charter schools wishing to use Fitnessgram as their reporting tool. TEA estimates that this 100% funding reduction would result in TEA being unable to provide 979 districts in 2017 with "Fitnessgram 10" software licenses or "Fitnessgram 10" software training.	\$2,000,000	\$2,000,000	0.0	\$0	100.0%	\$2,000,000	N



**Texas Education Agency  
Summary of Ten Percent Biennial Base Reduction Options**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
8)	Best Buddies	The purpose of the Best Buddies program is to provide support in creating opportunities for one-to-one friendships, integrated employment, and leadership development for Texas high school and middle school student with intellectual and developmental disabilities (IDD). TEA reports that eliminating all funding for the program would remove the valuable leadership training and social for students with IDD, a historically underserved student population.	\$400,000	\$400,000	0.0	\$0	100.0%	\$400,000	N
9)	Student Success Initiative	Consistent with the General Appropriations Act, 85th Legislature Rider 43 Student Success Initiative, the Texas Education Agency awarded grants to 40 public schools and public charter schools with high percentages of students who do not perform satisfactorily on relevant state assessments, and that serve the most struggling neighborhoods in the state. TEA anticipates that this 13.7% reduction in funding will have a significant negative impact on student achievement outcomes for students who live in some of the most impoverished neighborhoods in Texas and attend historically struggling schools. TEA anticipates current annual participation of 22,000 students could be reduced to 19,000 students, a reduction of 1 FTE, and a reduction of 3 state training conferences to 1 state training conference.	\$1,500,000	\$1,500,000	0.0	\$0	13.6%	\$11,000,000	N
10)	Texas Gateway and Online Resources	The Texas Gateway is a content management and delivery system (CMDS) through which TEA provides free online resources (e.g., lessons, courses, professional development) to teachers, students, and parents. A 10% cut will greatly reduce the ability of the agency to provide new content to the 200,200 teachers, students and parents who benefit from free instructional resources. This cut could also impact the number of course enrollments that can be made available free-of-charge each year.	\$1,500,000	\$1,500,000	0.0	\$0	10.0%	\$15,000,000	N

**Texas Education Agency  
Summary of Ten Percent Biennial Base Reduction Options**

**Appendix E**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
11)	Non-Ed Community Based Support	Non-educational community-based support services to school districts and charter schools provide certain students with disabilities and their families with a free and appropriate public education (FAPE) in the least restrictive environment (LRE). The funds may be used only for eligible students with disabilities -- who would be placed in residential facilities for their education -- without the provision of non-educational community-based support services. TEA estimates that this reduction in program funding would negatively impact the students and their families and could increase state costs as students may have to be placed in residential facilities -- away from their homes and families -- for their education.	\$345,556	\$345,556	0.0	\$0	17.5%	\$1,974,600	N
12)	Students with Autism	This funding supports a grant program that allows for ten grants to be funded for an amount up to \$1,000,000 per grant per year. TEA anticipates that a 7.5% funding reduction will result in the award of nine grants rather than 10 grants per year which would result in approximately 7,500 fewer students served.	\$1,500,000	\$1,500,000	0.0	\$0	7.5%	\$20,000,000	N
13)	Students with Dyslexia	This funding supports a grant program that allows for ten grants to be funded for an amount up to \$1,000,000 per grant per year. TEA anticipates that a 7.5% funding reduction will result in the award of nine grants rather than 10 grants per year which would result in approximately 7,500 fewer students served.	\$1,500,000	\$1,500,000	0.0	\$0	7.5%	\$20,000,000	N
14)	Educator Excellence Innovation Program	Humanities Texas is a non-profit organization that sponsors lectures and presentations on a diverse range of topics, bringing noted scholars and other experts to audiences around the state of Texas. With a 6.9% cut of the total rider funds but a 100% cut to the Humanities of Texas portion, TEA anticipates that Humanities Texas may not be able to support their programming to the extent that they have in previous years.	\$2,000,000	\$2,000,000	0.0	\$0	6.9%	\$29,000,000	N

**Texas Education Agency  
Summary of Ten Percent Biennial Base Reduction Options**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
15)	Teach For America	TFA recruits recent college graduates and professionals who commit two years to teach in Texas urban and rural areas in the state's hardest-to-staff classrooms with significant populations of low-income students. With a 10% reduction of funds, TEA approximates TFA will have to reduce the teacher cohort from 714 to 643 teachers, a loss of 71 Corps Members. These teachers would serve thousands of low-income students in hard-to-staff classrooms.	\$1,100,000	\$1,100,000	0.0	\$0	10.0%	\$11,000,000	N
16)	Texas Academic Innovation & Mentoring	The Academic Innovation & Mentoring (AIM) program is an innovative partnership between Texas Alliance of Boys and Girls Clubs and the Sylvan Learning Centers. A 100% reduction in this program would impact approximately 3000 students and approximately 850 parents who would no longer receive support and academic services each fiscal year.	\$4,500,000	\$4,500,000	0.0	\$0	100.0%	\$4,500,000	N
17)	School Improvement and Governance Support	<p>TEA Rider 44 funds a number of initiatives including the System of Great School Network (SGS). Districts in the network get support to take school action (create new schools, partnerships, and aggressive turnaround actions). Reducing rider funding would decrease the number of districts that can received support as well as the depth of support provided.</p> <p>Additionally, the Professional Service Provider (PSP) Pilots are also funded through Rider 44 funds. The PSP Pilot funds support several ESCs to work towards developing better ways of supporting F rated schools. TEA reports that a reduction would inhibit the agency's ability to continue or scale the new service models.</p> <p>A 10% reduction in Rider 44 would also reduce governance trainings and allow for fewer monitors or conservators to be effectively trained. In addition, fewer school boards would be able to access certain agency supports.</p>	\$285,000	\$285,000	0.0	\$0	10.0%	\$2,850,000	N

**Texas Education Agency  
Summary of Ten Percent Biennial Base Reduction Options**

**Appendix E**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
18)	Early College High School	Early College High Schools (ECHS) are innovative schools that blend high school and college coursework to help historically underserved and at-risk students earn a high school diploma and up to 60 college credit hours simultaneously at no cost to participating students. In 2017-2018, 198 designated ECHS served 69,065 students. With this 7.5% cut, TEA expects that the growing ECHS program will be unable to effectively serve students to advance college preparation, reduce barriers to college access, and achieve TEA's strategic priority of connecting high school to career and college.	\$450,000	\$450,000	0.0	\$0	7.5%	\$6,000,000	N
19)	Incentive Aid	A ten percent reduction in incentive aid for district consolidation would reduce state aid available to fund existing consolidation payments as well as any new consolidations that would occur during the 2020 and 2021 school years. Because incentive aid payments are required under TEC Chapter 13, Subchapter G, and are not subject to appropriations being made available, to the extent that the reduced appropriation for incentive aid was insufficient to fund the estimated incentive aid payments, the Texas Education Agency would be required to transfer an amount from strategy A.1., FSP – Equalized Operations to make up for the reduction.□	\$200,000	\$200,000	0.0	\$0	10.0%	\$2,000,000	N
20)	Adult Charter School	The Adult Education pilot program supports TEA's Strategic Plan by providing funding for the Excel Center for Adults, a free, public charter high school in Texas, that provides adult students ages 19-50 the opportunity to earn their high school diploma and complete career and technology education courses that lead to industry certification. The funding provides resources to this particular at-risk, adult-student population. TEA estimates this 100% funding reduction would have a significant negative impact on the Excel Center and most likely result in the charter school closure. As a result, current and future students would not be served.	\$2,000,000	\$2,000,000	0.0	\$0	100.0%	\$2,000,000	N

**Texas Education Agency**  
**Summary of Ten Percent Biennial Base Reduction Options**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
21)	Communities in Schools	Communities In Schools (CIS) in Texas partners with educators, students, and parents to identify needs of students who are at-risk of dropping out of school. TEA anticipates that this 46.8% funding reduction will have significant negative impacts on student participation in CIS programs and programs' ability to support students. TEA anticipates current annual participation of 85,000 students could be reduced to 45,000 students each year.	\$14,517,462	\$14,517,462	0.0	\$0	46.8%	\$31,043,632	N
22)	Early Childhood School Readiness	The Children's Learning Institute provides all districts, charter schools and other eligible entities with easily accessible, high-quality prekindergarten professional development and monitoring resources at no cost. TEA estimates that this funding reduction would have a significant negative impact on student outcomes by decreasing the number of students, teachers and classrooms benefitting from Texas School Ready! programs. It may also hinder implementation of High Quality Prekindergarten classrooms statewide pursuant to Rider 78 (85th Legislature), overall leading to fewer classrooms and schools serving Prekindergarten students.	\$262,500	\$262,500	0.0	\$0	7.5%	\$3,500,000	N
23)	Assessment	To make an additional 10% reduction would require the legislature to make statutory changes to remove several state legally required mandates.	\$9,737,696	\$9,737,696	0.0	\$0	10.0%	\$97,376,959	N
24)	Instructional Materials Fund	TEA made certain assumptions regarding the SBOE's transfer rate from the PSF to the ASF in its calculation of this item which subsequently have not occurred. In conjunction with those assumptions, TEA incorporated a ten percent reduction. Using their assumed figures, TEA reports that the IMF funding level per student would be higher in 2020-21 than it was in 2018-19.	\$124,815,336	\$124,815,336	0.0	\$0	10.0%	\$1,248,153,358	N

**Texas Education Agency**  
**Summary of Ten Percent Biennial Base Reduction Options**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
25)	Open Educational Resource Materials	TEA reports that using open educational resource materials could offer the state significant savings by providing free, on-line, supported access to world class materials. TEA anticipates that this 10% funding reduction will hinder the state's ability to keep developing instructional materials in core subjects. However, the number of districts that will choose to use these materials and the number of students who would be impacted is not yet known.	\$2,000,000	\$2,000,000	0.0	\$0	10.0%	\$20,000,000	N
26)	Pathways in Technology Early College High School (P-TECH)	Pathways in Technology Early College High Schools (P-TECH) are innovative high schools that blend high school and college coursework to help historically underserved and at-risk student develop technical skills, earn dual credit, and pursue high-wage, high-demand career paths at no cost to the participating students. With this 10% reduction, TEA reports that campuses will be unable to implement the P-TECH model with fidelity and fail to provide college credit and work-based learning to historically underserved and at-risk students at no cost to participants.	\$485,000	\$485,000	0.0	\$0	10.0%	\$4,850,000	N
27)	Texas Science, Technology, Engineering and Mathematics (T-STEM)	Texas Science, Technology, Engineering and Math (T-STEM) Academies are innovative grades 6-12 or 9-12 campuses that blend high school and college coursework that focus in STEM fields to help historically underserved and at-risk students develop technical skills, pursue high-wage, high-demand career paths at no cost to the students. With a ten percent reduction the 10% cut, TEA anticipates that the number of campuses providing T-STEM services would decrease and limit the number of historically underserved and at-risk student receiving STEM-focused education and career preparation.	\$300,000	\$300,000	0.0	\$0	10.0%	\$3,000,000	N
28)	Amachi	The Amachi program provides one-on-one mentoring for students who have an incarcerated parent or family member. TEA reports that a 10% funding reduction would result in significant negative impacts to the Amachi program and cause current and future students to cease to be served (if another funding source could not be located).	\$130,000	\$130,000	0.0	\$0	10.0%	\$1,300,000	N

**Texas Education Agency**  
**Summary of Ten Percent Biennial Base Reduction Options**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
29)	Reading Excellence Team Pilot	The Reading Excellence Team Program currently funds 5.5 FTEs across two Education Service Centers to provide targeted training and coaching of Kindergarten through grade 3 teachers and campus leaders in early literacy best practices. A 10% reduction in overall program funds would result in the reduction of 0.5 FTE, leading to up to five fewer campuses served in the program.	\$136,886	\$136,886	0.0	\$0	10.0%	\$1,368,864	N
30)	Reading to Learn (RTL) Academies	Reading-to-learn academies offer paid training to teachers who provide reading comprehension instruction to students at the fourth or fifth grade level. TEA reports that a 10% cut, equivalent to roughly 1,500 stipends for participating teachers, would significantly reduce the number of teachers trained to help struggling readers in Texas by removing financial incentive to participate in an academy.	\$550,000	\$550,000	0.0	\$0	10.0%	\$5,500,000	N
31)	Literacy Achievement Academies	Literacy achievement academies offer paid training for teachers who provide reading instruction to students at the kindergarten or first, second, or third grade level. TEA reports that a 10% reduction, equivalent to roughly 2,500 stipends for participating teachers, would significantly reduce the number of teachers trained to help students in kindergarten through grade 3 develop core reading and writing skills by removing financial incentive to participate in an academy.	\$900,000	\$900,000	0.0	\$0	10.0%	\$9,000,000	N
32)	Mathematics Achievement Academies	Mathematics achievement academies offer paid training for teachers who provide mathematics instruction to students at the kindergarten or first, second, or third grade level. TEA reports that a ten percent reduction would result in roughly 1,285 fewer teachers per year who could participate in an academy and receive a stipend.	\$900,000	\$900,000	0.0	\$0	10.0%	\$9,000,000	N

**Texas Education Agency  
Summary of Ten Percent Biennial Base Reduction Options**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
33)	Funding for Regional ESCs	Regional Education Service Centers (ESCs) assist school districts in improving student performance, enable school districts to operate more efficiently and economically, and (3) implement initiatives assigned by the legislature or the commissioner. A reduction in funding could disrupt the ability of ESCs to deliver these services. Further, ESCs played a critical leadership role during the Hurricane Harvey recovery. A 7.5% cut to ESCs would disproportionately impact the ESCs serving small and rural school districts because the funding formula is structured to provide rural ESCs with more state funding on a per pupil basis. In the event of a natural disaster, a reduction in ESC funding will mean ESCs have less capacity to support the recovery effort at school districts.	\$1,781,250	\$1,781,250	0.0	\$0	7.5%	\$23,750,000	N
34)	Funds from Closed Charter Schools	A reduction of these funds would hinder TEA's ability to efficiently close poor performing charter schools.	\$150,336	\$150,336	0.0	\$0	10.0%	\$1,503,359	N
35)	ESC Dyslexia	The purpose of the statewide education service center (ESC) Dyslexia Project is to assist the joint program of coordinators for dyslexia and related disorders services at each regional ESC pursuant to Texas Education Code (TEC) §38.003. TEA reports that this 7.5% reduction would decrease the number of teachers receiving training would decrease and education would be less effective for students with dyslexia and related disorders.	\$18,750	\$18,750	0.0	\$0	7.5%	\$250,000	N
36)	Students with Visual Impairments	The purpose of the ESC Statewide Services for Student with Visual Impairments (SSVI) Grant, Rider 15, is to support activities that improve student outcomes, and program and service effectiveness, for students who are blind or visually impaired. TEA reports that a funding reduction of 7.5% will have significant impacts on student support and services.	\$848,290	\$848,290	0.0	\$0	7.5%	\$11,310,536	N



Texas Education Agency  
Summary of Ten Percent Biennial Base Reduction Options

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs				
37)	Regional Day Schools Deaf	The purpose of the state appropriated formula funds for the Regional Day School Programs for the Deaf, Rider 14, is to support activities to the 54 RDSPDs across the state of Texas who serve students with hearing loss to improve student outcomes, and program and service effectiveness. TEA reports that a funding reduction of 7.5% will have significant impacts on student support and services.	\$4,969,980	\$4,969,980	0.0	\$0	7.5%	\$66,266,400	N
TOTAL, 10% Reduction Options			\$198,386,026	\$198,386,026	0.0	\$0	11.0%	\$1,808,182,692	

## Texas Education Agency Supplemental Issues

### 1. Status of Selected Recently-Established Programs

The 85<sup>th</sup> Legislature provided \$69.4 million for four new or recently enacted programs in the 2018-19 biennium: E-Rate, P-TECH, Math Innovation Zones, and Teacher Academies. Implementation and funding information related to these programs are provided below.

**E-Rate:** House Bill 1 includes no funding for the E-Rate program in the 2020-21 biennium. The Legislature appropriated \$25.0 million out of Economic Stabilization Fund No. 599 in Rider 69 to TEA in fiscal year 2018 for the purpose of receiving a match of \$225.0 million in Federal Funds to make telecommunications and information services more affordable for certain school districts. According to TEA, as of the end of fiscal year 2018, \$23.4 million of the \$25.0 million had been encumbered or distributed. A total of 468 school districts will benefit from new projects that will provide high-speed internet access where it was previously unavailable. According to the agency, when these projects are complete, 99 percent of schools in Texas will be estimated to have fiber-optic connections required to meet current and future connectivity needs.

**Pathways in Technology Early College High School (P-TECH):** House Bill 1 includes \$5.0 million in General Revenue out of Strategy A.2.1, Statewide Educational Program, to support P-TECH. P-TECH allows students to obtain work experience while earning a high school diploma and an associate degree, certificate, or certification within six years. Funds must be used for programs that align with Early College High School Requirements and include certain additional components.

In the 2018-19 school year, Texas had 34 designated P-TECH school and 28 campuses that were in the planning stage. On October 12, 2018 the agency announced P-TECH and Industry Cluster Innovative Academy (ICIA) Planning Grants. These funds are available to campuses that are planning to open a P-TECH in the 2020-21 school year. The agency indicates that 34 schools in Texas have been designated as P-TECH Schools, with an additional 28 schools in the planning phase.

**Innovative Programs:** House Bill 1 includes \$14.5 million out of Strategy B.2.1, Improving Educator Quality and Leadership, to support Innovative Programs that support educator development or increase achievement outcomes in the 2020-21 biennium. These include Math Innovation Zones (MIZ), which are intended to support blended learning programs focused on improving student and teacher outcomes. Amounts included in House Bill 1 are equivalent to the agency's base amount in the 2018-19 biennium and is in line with the agency's request.

According to the agency, four school districts and one charter school were designated as MIZ Pilot Grant Sites in the 2018-19 school year, while another five school districts and four charter schools were designated as exploratory sites. The agency anticipates that the program will expand to between 10 and 15 schools districts and charter schools in the 2019-20 school year, with expanded programs serving additional grades at the 2018-19 sites. The agency plans to initiate a pay-for-success program in the 2020-21 biennium, which would provide financing to grant recipients based on successful implementation of the program.

**Teacher Academies:** House Bill 1 includes \$24.9 million for teacher academies, the same level of funding as the 2018-19 biennium. This includes:

- **Mathematics Achievement Academies:** \$9.0 million for the biennium to provide teachers in Kindergarten to grade three with a curriculum focused on core numeracy skills.
- **Literacy Achievement Academies:** \$9.0 million for the biennium teachers of kindergarten to grade three with a curriculum focused on how to teach core reading and writing skills.

- **Reading Excellence Teams:** \$1.4 million for the biennium directed to eligible schools with unsatisfactory scores on early reading assessments to have highly trained reading instruction specialists assist classrooms of kindergarten to grade three with instruction.
- **Reading-to-Learn Academies:** \$5.5 million to train teachers who provide reading comprehension instruction to students at the fourth or fifth grade level.

In anticipation of the projected lapses during the 2016-17 biennium, the 85<sup>th</sup> Legislature significantly reduced funding for the programs in the 2018-19 biennium. In 2018-19 the agency funded 2,484 Mathematics Academy and 2,086 Reading Academy teacher stipends in the summer of 2018. The agency also awarded contracts for development of content and training-of-trainers. The agency also initiated a blended learning component to allow educators to receive additional training throughout the school year. TEA does not anticipate lapsing funds from the academies in the 2018-19 biennium

## 2. Agency Contracting Procedures

In August of 2018 the Texas State Auditor's Office (SAO) released "An Audit Report on Selected Contracts at the Texas Education Agency." The report found weaknesses that affected award outcomes. In the two contracts identified management did not follow processes designed to maintain the integrity of procurements.

The SAO found that for a contract for the design and creation of web pages and content, TEA Management overrode controls in its procurement process in order to award a contract to a preferred vendor and committed other planning and procurement errors. For a second contract related for data services to the individualized education plans (IEP) process and pilot solutions, the SAO found that TEA failed to ensure the integrity of the procurement. The agency failed to conduct a needs assessment, failed to identify a professional relationship between Agency management and a contractor, and paid the contractor \$2.5 million despite receiving only one deliverable valued at \$150,000

The SAO report made several recommendations, including recommendations that the agency consistently follow a process for competitive solicitations, strengthen contract and legal review, and advertise solicitations as required by statute.

TEA responded in agreement to all findings in the audit and stated that the agency was already starting to implement an extensive and aggressive set of reforms starting in Fall of 2017. TEA has reported that they are improving their procurement processes, and that they replaced the director of contracts, hired more attorneys for legal review, and developed a five-phase contracting process.

## 3. Update on STAAR Testing Administration

During the spring 2018 administration of the STAAR test, TEA experienced problems with the online testing platform that impacted student test takers. In April 41,702 students were affected by testing issues, and in May 29,307 students were affected by a connection slowdown. In response to these problems TEA assessed \$100,000 in liquidated damages against Educational Testing Service (ETS), the company responsible for administering STAAR. According to TEA, this was the maximum allowable amount in the agency's contract with ETS. TEA has historically operated the state testing program through contracting with outside entities and with TEA staff providing technical support to the program. Instead of awarding the entire assessment contract to one vendor, in May 2015, TEA awarded assessment contracts to two vendors with the majority of the assessment program features awarded to Educational Testing Service (ETS) through fiscal year 2020. The following provides a breakdown of the assessment contract by vendor:

- **ETS** – Program Integration and State of Texas Assessments of Academic Readiness (STAAR) grades 3-8, end-of-course (EOC), STAAR Spanish, STAAR L and STAAR A assessments; and
- **Pearson** – STAAR Alternate 2, Texas English Language Proficiency Assessment System (TELPAS), and Texas Assessment of Knowledge and Skills (TAKS).

The following shows assessment contract costs by vendor from fiscal year 2018 to 2020.

<b>State Testing Program Vendor Amounts Fiscal Years 2018 to 2020</b>			
<b>Vendor</b>	<b>FY 2018 Estimated</b>	<b>FY 2019 Estimated</b>	<b>FY 2020 Estimated</b>
Pearson	\$15,554,613	\$15,381,458	\$15,678,319
ETS	\$92,973,976	\$83,534,982	\$75,903,165
<b>Total</b>	<b>\$108,528,589</b>	<b>\$98,916,440</b>	<b>\$91,581,484</b>
Source: Texas Education Agency. Note: FY 2020 amounts assume renewal of the current contracts (currently set to expire on August 31, 2019).			

The ETS contract is scheduled to expire on August 31, 2019, although the agency has the ability to extend the contract for one additional year. In May, 2018 the agency stated its intention to rebid the two agency's contracts for assessment services after the current contracts expire. The agency intends to exercise the one-year extension of the ETS contract in order to facilitate a smoother transition should a new vendor be chosen. The agency has stated its intention to prioritize online testing functionality in its next solicitation

#### 4. Effectiveness of Various TEA Programs

In the 2018-19 biennium, the Legislature added language to several riders requiring contracted entities to provide expenditure and performance data to the Commissioner to assess program success. LBB staff requested information from TEA about accountability information they had collected for such programs, and a summary of information collected by TEA is provided below:

- Mathcounts (Rider 21): The agency intends to begin collecting assessment data for students participating in the program in fiscal year 2020 in order to conduct pre- and post-assessments. This will provide the agency with performance data for all participants, rather than just the highest performers in competition.
- Communities in Schools (Rider 22): According to information collected in TEA's CIS Tracking Management System, in school year 2017-18, 98% of case-managed students (grades 7-12) stayed in school; 96% were promoted to the next grade (K-11th grade); 94% of eligible seniors graduated; 96% targeted for social services met goals; 90% of students targeted for academics showed improvement; 74% of students targeted for attendance showed improvement; and 93% of students targeted for behavior showed improvement.
- Education Service Center Dyslexia Coordinators (Rider 29): The percent of students reported in PEIMS by school districts as having been identified with dyslexia increased from 2.9% in the 2016-2017 school year to 3.1% in the 2017-2018 school year. Further, two new performance measures for ESC Dyslexia Coordinators are likely to yield information on program effectiveness. The agency anticipates having more outcome data in a year.
- Math Innovation Zones and Replicating Great Options (Rider 41 (c)): TEA will begin collecting fidelity of implementation data for Math Innovation Zones, and this data will be used in implementing pay-for-performance in the 2020-21 biennium.
- Early Childhood School Readiness Program/Children's Learning Institute (Rider 42): According to TEA, the agency receives monthly and quarterly reports from the Children's Learning Institute (CLI) on enrollment, professional development, and other indicators. According to TEA, CLI is working on an Annual Report which will include financial information and performance data.

- Student Success Initiative/Community Partnerships (Rider 43): Grantees are required to monitor progress data that is tied to outcomes specified in the grant. Grantees collect outcome data once every six weeks and report to TEA during regular check-in meetings. Information on outcomes is expected to be available after the 2018-19 school year.
- Texas Virtual School Network (Rider 45): During school year 2016–17, two of the state’s largest Virtual School Network Online Schools received an Improvement Required rating. These two schools collectively represent 68.0 percent of total Texas Virtual School Network Online School enrollment. Catalog course completions in school year 2015-2016, the most recent year data is available, were 91.6 percent.
- Teach for America (Rider 47): During TEA’s Strategic Fiscal Review for the 2016-17 General Appropriations Act, LBB staff reviewed several program evaluations of Teach for America (TFA). Staff concluded that “TFA has had mixed results in terms of student performance and teacher retention.” Some studies indicated that TFA teachers had shorter tenures and produced worse student achievement than traditionally credentialed teachers. In the summer of 2018, TFA provided LBB staff with information on the number of teachers employed by the program, as well as their demographic profiles and information on students served. TFA representatives highlighted improvement in various outcomes, including teacher diversity and growth in the number of TFA alumni serving in Texas schools who have three or more years of service. In the 2017-18 school year, Teach for America had 712 first and second year teachers in Texas, as well as 1,463 alumni who were their third year or higher year of teaching.
- Amachi Texas (Rider 50): 98.8 percent of students mentored for six months or more in the Amachi Mentoring Program were promoted to the next grade, while 1.4 percent were referred to the juvenile justice system and 2.8 percent were referred to an alternative education placement. TEA reports that in school year 2016-17, 90 percent of new student mentoring matches were mentored for six months or more.
- Texas Academic Innovation and Mentoring/Boys and Girls Clubs (Rider 51): Boys and Girls Clubs of Texas reports enrollment and outcome data to the agency. According to Boys and Girls Clubs of Texas, 85 percent of youth advance an academic level after completing the program.
- Texas Lesson Study (Rider 53 (c)): TEA reports that on average, student mastery scores on a pre-test and post-test for the specified TEKS objective increased by 27%. Participating teachers have reported higher levels of confidence in teaching ability, content expertise, collaborative time, and job satisfaction.
- Best Buddies (Rider 71): The organization’s 2018 annual survey showed that 85 percent of participants felt more accepted by their friends, 89 percent enjoyed their experience in the program, and 93 percent became more aware that individuals with intellectual and developmental disabilities can hold jobs in the community.

## 5. Evaluation of House Bill 1842 and Campus Turnaround Plans

House Bill 1842, 84th Legislature (2015) amended Chapter 39 of the Texas Education Code, establishing a process by which a public school campus that had consistently failed to meet state accountability standards would be required to develop and implement a campus turnaround plan. The bill required LBB to evaluate Sec. 39.107 of the Texas Education Code, as amended by the bill, which governs the campus turnaround plan policy, to determine whether the legislation has led to improvements to school and student performance. This evaluation was published in November 2018:

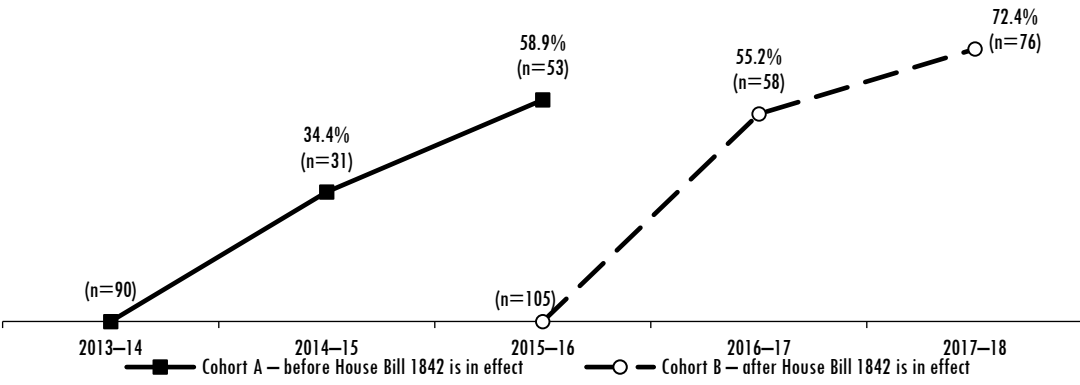
[http://www.lbb.state.tx.us/Documents/Publications/Policy\\_Report/4886\\_Campus\\_Turnaround\\_Plans.pdf](http://www.lbb.state.tx.us/Documents/Publications/Policy_Report/4886_Campus_Turnaround_Plans.pdf)

In order to assess campus turnaround plan policy, LBB staff evaluated the extent to which campuses with consecutive years of unacceptable accountability ratings met standard in a subsequent school year. The analysis compares campuses with second year Improvement Required ratings before the implementation of House Bill 1842 to campuses that had second year Improvement Required ratings after implementation. This comparison is intended to illustrate whether the development or implementation of campus turnaround plans has made it more likely that campuses would meet standard in a subsequent year.

LBB staff focused on second year Improvement Required campuses that were required to develop campus turnaround plans in the 2015-16 school year. This was the first school year after the implementation of House Bill 1842. LBB staff evaluated the share of these campuses that met standard within two years. This allowed

LBB staff to evaluate second year Improvement Required campus that developed turnaround plans, as well as third year Improvement Required campuses that implemented campus turnaround plans. LBB staff compared this group with campuses that were second year Improvement Required two years before the law went into effect. For this period, these campuses were unaffected by House Bill 1842 because the bill had not been passed or implemented.

In this evaluation, LBB staff found that after the implementation of House Bill 1842 during the 2015-2016 school year, campuses with multiple years of Improvement Required ratings met standard at a higher rate than before. This finding holds true when comparing campuses with similar socio-demographic characteristics. These observations suggest that House Bill 1842 and campus turnaround plan policy has had a positive effect on student achievement and campus accountability. However, some portion of this effect could be attributable to a general improvement in accountability ratings during the period of study.



SOURCE: Legislative Budget Board.

6. Funding for Unaccompanied Children Served by Texas Schools

On August 21, 2018 TEA provided guidance to school districts regarding the provision of education services by Texas public schools to children under the care of the U.S. Department of Health and Human Services Office of Refugee Resettlement (ORR). This guidance was provided in response to questions from school districts and charter schools that partnered with shelters in which unaccompanied children were being detained.

Federal law under the United States Refugee Act of 1980 requires that the ORR Director arrange placement of unaccompanied refugee children before their arrival or as soon as possible thereafter. The Director is required to assume legal and financial responsibility for unaccompanied children before they are placed in care. In addition, the Flores settlement of 1993 requires that ORR-contracted facilities that house unaccompanied children assume financial responsibility for providing educational services to those children.

If Texas public schools are asked to provide educational services to these children, Texas Education Code Sec. 25.003 requires that a school district must charge tuition for a child residing in a residential facility who expenses are paid by the federal government. Section 25.003 specifies that attendance by children in federal custody is not counted for purposes of allocating state funds to a district. That is, Texas public schools can provide educational services to unaccompanied children in federal care, but payment must come from sources such as tuition and cannot receive duplicative payment through the Foundation School Program. Once a child has been released from federal custody, a child may be admitted under normal protocols and may be counted for the purposes of state funding.

7. Additional Detail on Hurricane Harvey

Estimated required costs attributable to Harvey total \$907 million in fiscal years 2018-2021, with \$271.3 million realized and incorporated into the adjusted 2018-19 base, an additional \$636 million in fiscal years 2020 and 2021 included in House Bill 1. For an explanation of the interaction between tax year and budget years, refer to the District Property Values graphic with green boxes in Selected Fiscal and Policy Issue #2 and the additional analysis on property tax issues following the tables.

**Mandatory FSP Costs of Hurricane Harvey (in millions)**

Item		FY 18	FY 19	FY 20	FY 21	Total
1	Compensatory Education	\$103.0	\$44.0	-	-	\$147.0
2	ADA Hold Harmless	\$13.0	\$76.1	-	-	\$89.1
3	Ch. 41 Facilities Remediation	-	\$30.0	-	-	\$30.0
4	TY 17 Reappraisal	-	\$5.2	-	-	\$5.2
5	TY 18 DPV Impact (for districts that reappraised)	-	-	\$131.7	-	\$131.7
6	TY 18 DPV Impact(for districts that <b>did not</b> reappraise)	-	-	\$292.3	-	\$292.3
7	TY 19 DPV Impact	-	-	-	\$212.0	\$212.0
<b>Total</b>		<b>\$116.0</b>	<b>\$155.3</b>	<b>\$424.0</b>	<b>\$212.0</b>	<b>\$907.3</b>

**Options for Further Legislative Consideration**

Legislative discussions have including the option of providing additional Harvey-related funding in addition to the state costs required under current law. Cost estimates totaling \$634.2 million are detailed below. The Legislature could choose to fund these items through either a supplemental appropriation or by an additional appropriation in the 2020-21 General Appropriations Act.

Item		Total
8	Ch 42 Facilities Remediation	\$60.0
9	District Loss Due to Property Tax Collections	\$574.2
<b>Total</b>		<b>\$634.2</b>

**Property Tax Issues (Items 4-7 and 9)**

*Background:* A primary driver for FSP entitlement and state aid are property tax values. The FSP uses both a district's property value and property tax collections at various points in a district's FSP calculation. The property tax values used are from the prior fiscal year, while collections are from the current fiscal year. As an example, Tax Year 2018 property tax bills will be paid by property owners in fiscal year 2019; as a result, the collections will affect fiscal year 2019 state aid and recapture calculations, while the Tax Year 2018 property values won't affect FSP calculations until fiscal year 2020. Property values play a larger role than

property tax collections in a district's calculation of state aid, but both are significant. For example, both property values and property tax collections are used in the calculation of Tier 2 state aid and Recapture payments, while property values alone are used in a calculation of a district's state aid under Tier 1.

*Reappraisal:* The Tax Code authorizes school districts to reappraise properties affected by a disaster, should they so choose. If a school district chose to reappraise the properties in their district, the final Tax Year 2017 values would have been prorated so that the lower property value only apply proportionally to the remainder of the year following the disaster. TEA indicates that 12 school districts chose to reappraise their 2017 taxable property values. LBB staff estimate the 2018-19 biennial cost of the reappraisals to be \$5.2 million.

*Mandatory FSP Costs Related to Property Taxes:* The amounts shown in Items 4 through 7 above represent the estimated cost of Tax Years 2017 through 2019 for both reappraising and non-reappraising districts.

*Options for Further Legislative Consideration:* Since property values are such a large budget driver for the FSP, and because it relies on lagged values, affected school districts realized reduced tax collections a year before the state aid was increased, potentially causing financial hardship for affected districts. Item 9 above shows the estimated impact of reduced tax collections realized by the districts.

### **Compensatory Education Allotment (Item 1)**

The compensatory education allotment, which provides additional weighted FSP funding for economically disadvantaged students, is based on a district's highest six months of participation in the National School Lunch Program (NSLP) in the prior federal fiscal year. So NSLP participation in federal fiscal year 2017 (October 2016 - September 2017) affected the compensatory education allotment of the FSP in fiscal year 2018, and federal fiscal year 2018 (October 2017 - September 2018), affected the allotment in fiscal year 2019. School districts affected by the hurricane received a waiver from the Texas Department of Agriculture to provide free lunch to all students in August through October of 2017 through the NSLP, and for certain districts beyond October 2017. TEA currently estimates the increased cost to the FSP of this waiver to be \$103 million in fiscal year 2018 and \$44 million in fiscal year 2019.

### **Average Daily Attendance Hold Harmless (Item 2)**

A primary driver for FSP entitlement is student counts. As students were displaced as a result of the hurricane, affected school districts can be placed into two general categories: 1) those that experienced an increase in average daily attendance (ADA) as a result of absorbing students who were displaced by the hurricane, and 2) those that experienced a decline in ADA due to students being displaced by the hurricane. Taken alone, the impact to the biennial state budget resulting from students moving from one Texas district to another would be negligible.

However, in October 2017, pursuant to statutory authority granted in Education Code §42.0051, the Commissioner of Education released a letter stating that an adjustment to ADA (referred to by TEA as a hold harmless) would be made for school districts and charter schools experiencing declines in enrollment because of Hurricane Harvey for the 2017-18 school year. To be eligible for the adjustment, the school district or charter school would have had to complete necessary applications and: 1) experience damage to at least one campus which resulted in a disruption of instruction lasting two or more weeks, or 2) had instructional facilities that were closed for the 9 or 10 hurricane related waiver days. TEA estimates the biennial cost of the adjustment to be \$89.1 million.

Since the purpose of the ADA Hold Harmless is to provide affected schools with approximately the same amount of revenue that would have occurred had the hurricane not occurred, this would not necessarily be a cost over amounts appropriated by the Eighty-fifth Legislature, since no hurricane-related student declines were included in estimates to develop the FSP appropriation. However, any additional costs incurred by districts from educating students displaced by the hurricane were realized as part of settle-up in fiscal year 2019.



**Remediation (Items 3 and 8)**

The Education Code provides for disaster remediation costs that are not covered by insurance or FEMA to be paid by the state through an adjustment to the FSP. The Education Code treats Chapter 41 districts (those subject to the wealth equalization provisions of the Education Code) differently from Chapter 42 districts (those not subject to the wealth equalization provisions of the Education Code).

*Mandatory FSP Costs Related to Facilities Remediation:* The Education Code authorizes Chapter 41 districts to reduce their recapture payments by the amount of their unreimbursed disaster remediation costs within two years of the disaster. Districts have two years to apply to reduce their recapture payments. To date, TEA has only received one request from an affected school district, although this number is expected to increase substantially in fiscal year 2019. Current estimates developed by TEA assume \$30 million in fiscal year 2019 recapture adjustments related to facilities remediation.

*Options for Further Legislative Consideration:* The Education Code authorizes TEA to pay for disaster remediation costs for Chapter 42 districts, only to the extent that there is a surplus in the FSP, or the Legislature makes a specific appropriation for this purpose. Should the Legislature so choose, an appropriation could be made to provide remediation to Chapter 42 districts or Chapter 41 districts that have already fully offset their recapture payments. Current estimates developed by TEA assume that the total disaster remediation costs incurred by Chapter 42 districts after accounting for FEMA and insurance payments would be \$60 million.

8. **Charter Schools.** Charter schools are not authorized to levy local property taxes. Therefore, the entire FSP entitlement for a charter school is provided as state aid.

The charter school Tier 1 entitlement is determined by multiplying counts of students enrolled in general and targeted education programs by applicable program weights and the state average of school district adjusted allotments. Enrichment funding provided through Tier 2 for charter schools is calculated using the state average number of enrichment pennies levied by school districts with taxing authority.

The following figure shows, from fiscal years 2012 to 2021, charter school state aid, the percentage of total state aid, charter school average daily attendance, and the percentage of total ADA made up by charter schools

Year	State Aid (in Millions)	Average Daily Attendance (ADA)	Percentage of Total ADA
2012	\$1,172.1	139,049	3.0%
2013	\$1,327.1	161,846	3.4%
2014	\$1,561.3	183,228	3.8%
2015	\$1,793.2	207,003	4.3%
2016	\$2,030.9	226,771	4.6%
2017	\$2,256.4	250,592	5.0%
2018	\$2,550.8	271,781	5.4%
2019*	\$2,922.2	301,882	6.0%
2020*	\$3,315.5	336,325	6.6%
2021*	\$3,608.0	363,511	7.0%

\*Projected

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## 9. Significant Legislation

**House Bill 21, First Called Session, 2017 – Foundation School Program.** The legislation made multiple changes affecting public education and transferred a total of \$523.0 million in General Revenue Funds of 2018–19 biennial appropriations from the Health and Human Services Commission (HHSC) to other agencies. The legislation provided the Texas Education Agency with a total of \$311.0 million in General Revenue Funds to implement the following changes and new programs within the Foundation School Program:

- the Financial Hardship Transition Program, funded at \$150.0 million, provided grants to school districts that otherwise would experience financial hardships from other statutory changes occurring during the 2018–19 biennium;
- charter schools were provided with facilities funding for the first time, totaling \$60.0 million in fiscal year 2019;
- the legislation provided \$60.0 million for an increase in the yield for the Existing Debt Allotment in fiscal year 2019; and
- the legislation provided \$41.0 million for a change in the small-sized district adjustment applied to the Basic Allotment in fiscal year 2019. The small-sized adjustment for districts with less than 300 square mile was to be increased each year from fiscal year 2019 to fiscal year 2023

The legislation established the Texas Commission on Public School Finance (see Appendix G, Issue #10), which was charged with developing and reporting recommendations on statutory changes to improve the public school finance system by December 31, 2018. The legislation also established two separate non-FSP programs to provide grants to charters and school districts providing innovative services to dyslexic and autistic students, which were each transferred \$20.0 million in General Revenue from HHSC by House Bill 30, First Called Session, 2017.

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## 10. School Finance Commission

House Bill 21, Eighty-fifth Legislature, First Called Session, established the Texas Commission on Public School Finance to develop and make recommendations for improvements to the current school finance system or for new methods of financing public schools. The commission began meeting in January 2018 and adopted its final report in December 2018. Additional information on the commission, including a copy of the final report can be found at:

<https://tea.texas.gov/schoolfinancecommission/>.

Texas Education Agency (TEA)  
Quality Assurance Team (QAT) Highlights

TEA has one project subject to QAT oversight. The project below is within budget and on schedule as reported to the Quality Assurance Team\*

Project Name	Project Cost	Expenditures to Date	% Complete	Timeline in Months	Project Status
Cybersecurity	\$ 5.0	\$ 0.4	19.0%	14	<p>This project will implement cybersecurity procedures, policy and hardware/software using a phased approach for state-wide enterprise security of confidential student and teacher Personally Identifiable Information (PII), and Sensitive Personal Information (SPI).</p> <p>TEA began the project in FY 2018. The initial estimated project cost was \$5.0 million. The initial project start and finish dates were December 1, 2017, and August 31, 2019, respectively. Thus far, the project is successful in terms of both budget and duration.</p>

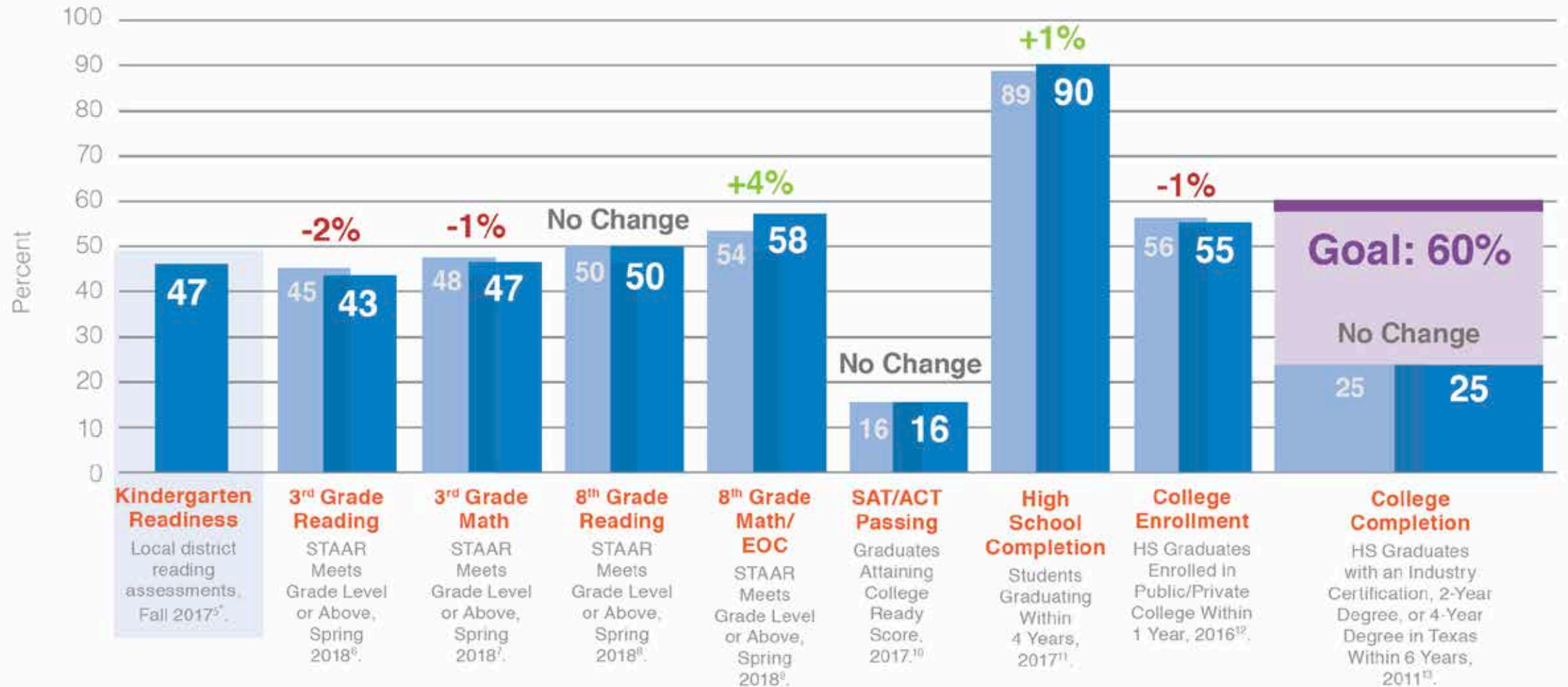
\*Note: These figures reflect all project costs (Capital and Informational) and timelines from self-reported monitoring reports that are sent to the Quality Assurance Team (QAT) for review. QAT includes representatives from the Comptroller of Public Accounts, Department of Information Resources, Legislative Budget Board and the State Auditor’s Office (Advisory Only).

# Texas Education Agency

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HOUSE APPROPRIATIONS INTRODUCED HB1 HEARING  
PRESENTATION

# Student Achievement and Attainment Summary



# TEA Strategic Priorities and Enablers



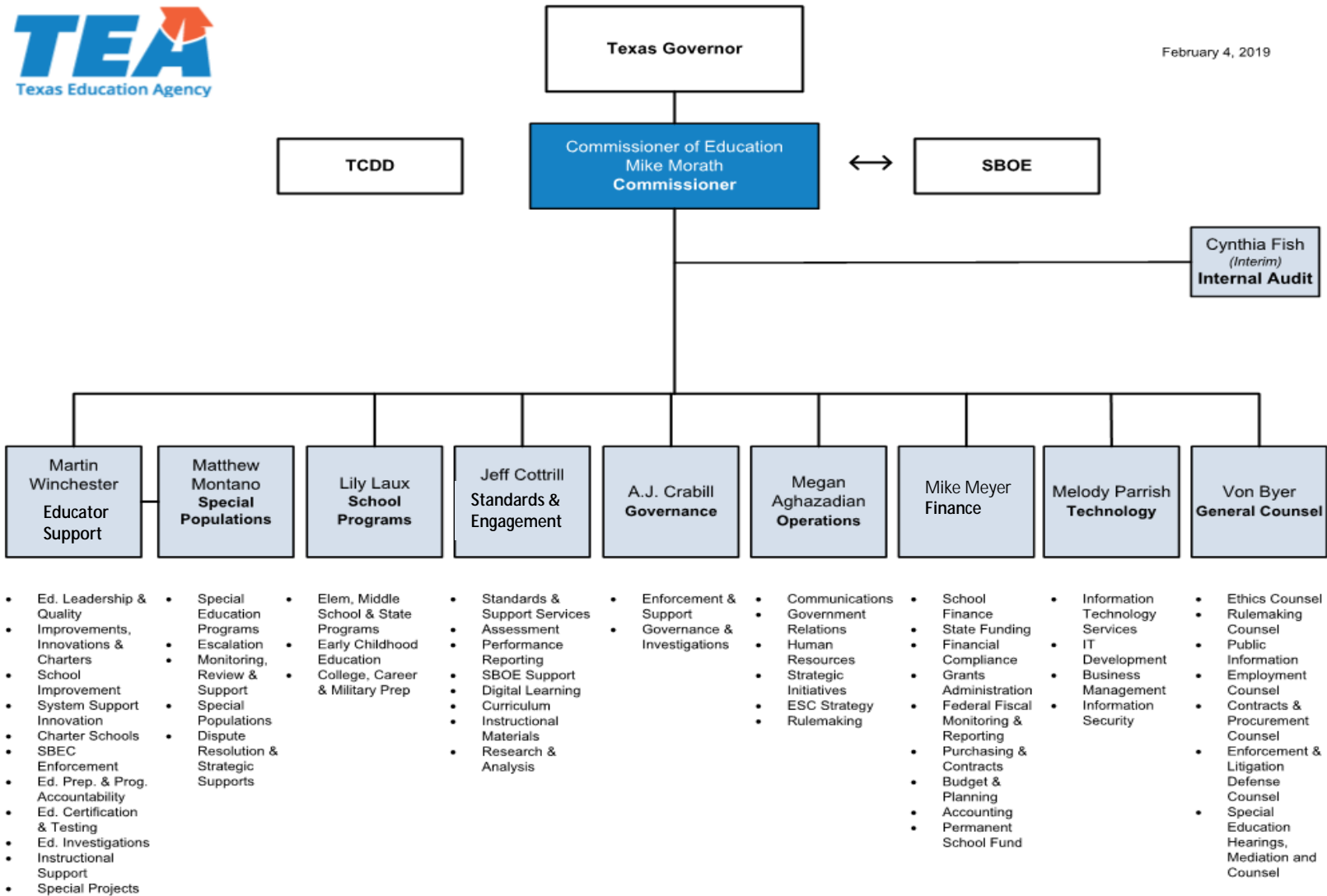
Every child, prepared for success in college, a career or the military.

Strategic priorities		Recruit, support, retain teachers and principals
		Build a foundation of reading and math
		Connect high school to career and college
		Improve low-performing schools
Enablers		Increase transparency, fairness and rigor in district and campus academic and financial performance
		Ensure compliance, effectively implement legislation and inform policymakers
		Strengthen organizational foundations (resource efficiency, culture, capabilities, partnerships)

# Organization Chart



February 4, 2019

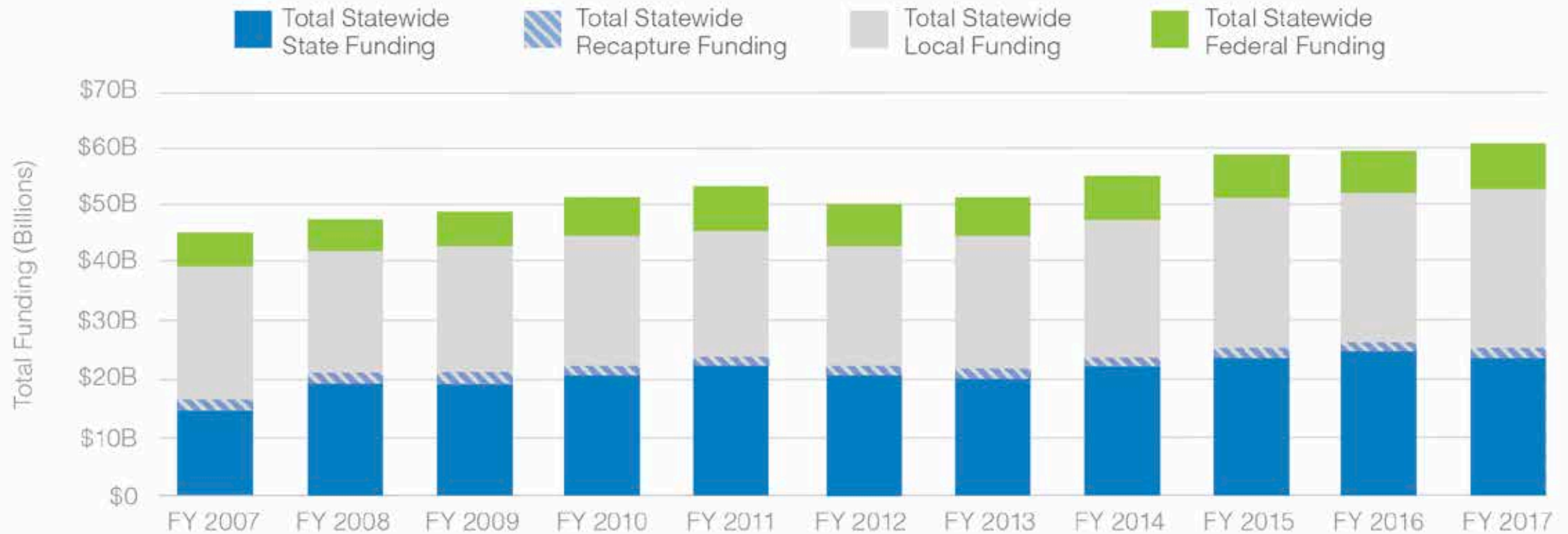




# Public Education Spending in Texas

**\$60,846,916,156**

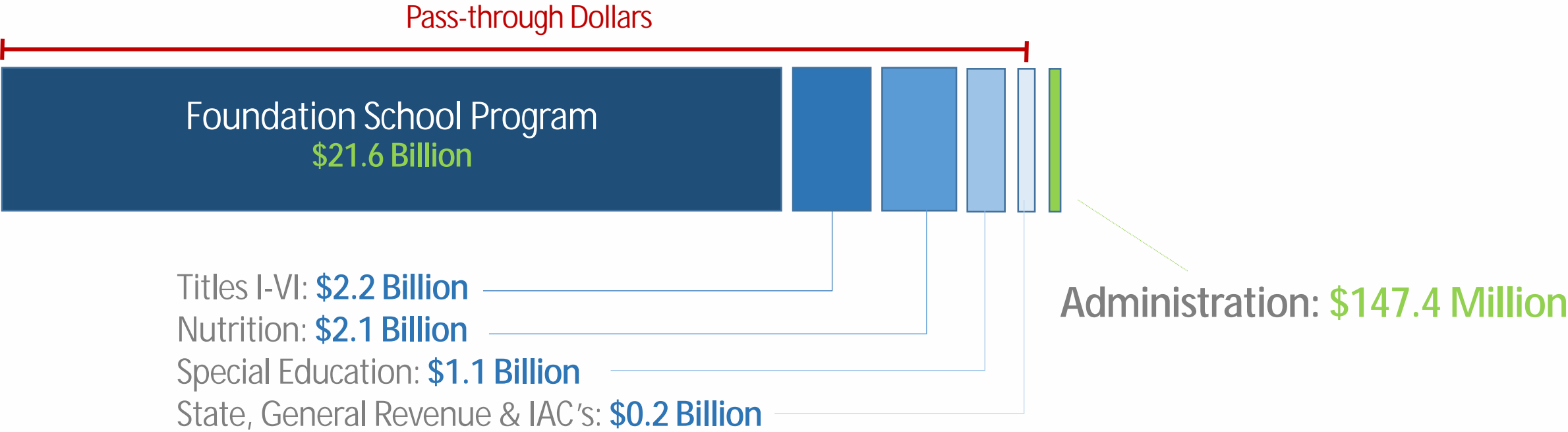
## TOTAL ANNUAL FUNDING





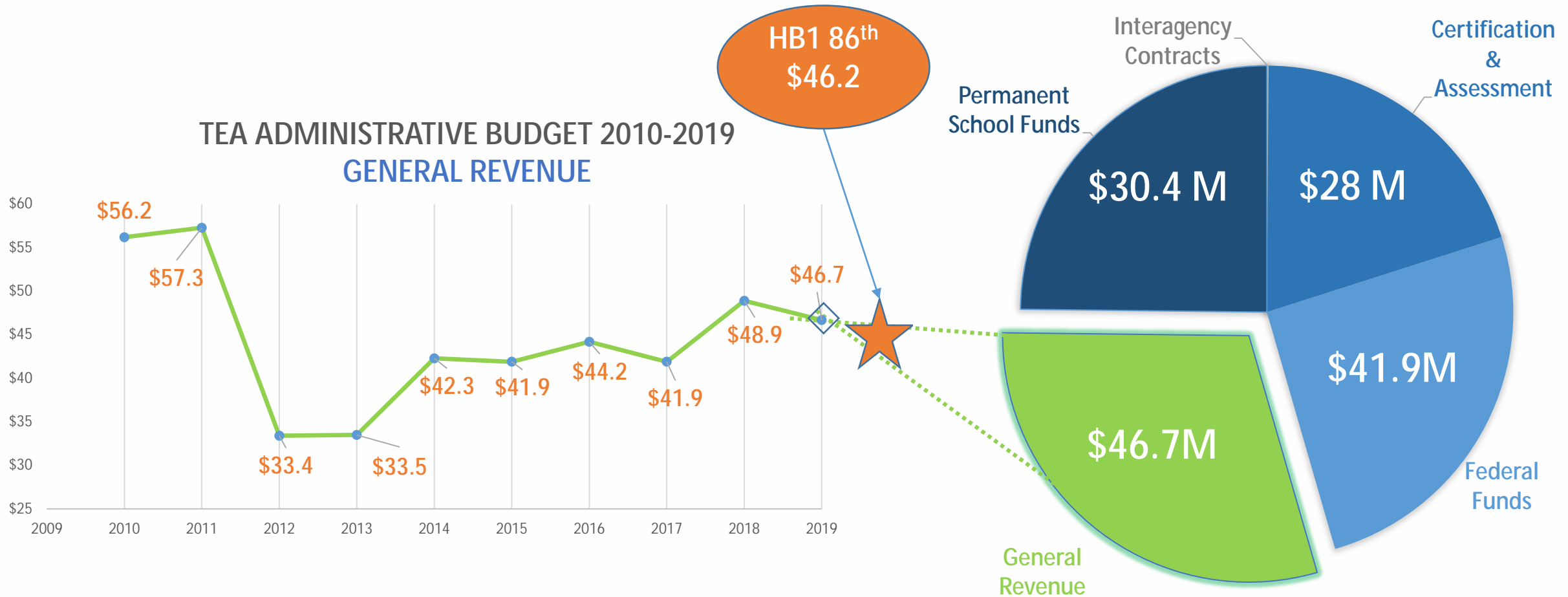
# FY 2019 TEA Agency Budget: \$27.2 Billion

The Texas Education Agency is responsible for the wise fiduciary stewardship of **\$27.2B** in state and federal funding and agency administrative costs total **\$147.4 M**



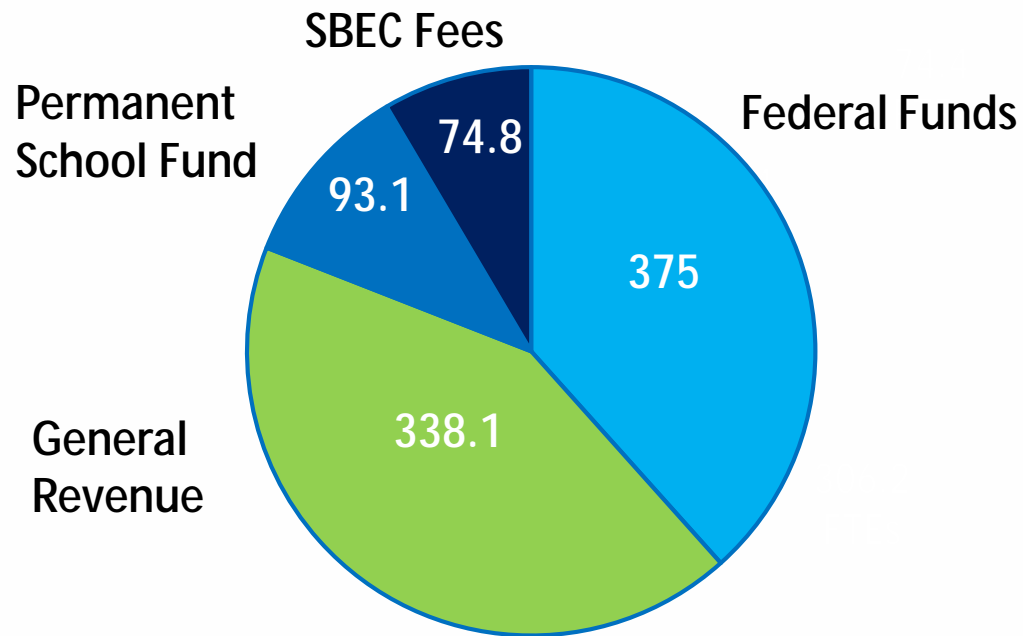
# FY 19 Annual TEA Administrative Budget: \$147,369,728

## FY 20 HB1 Introduced TEA Administrative Budget: \$145,630,843



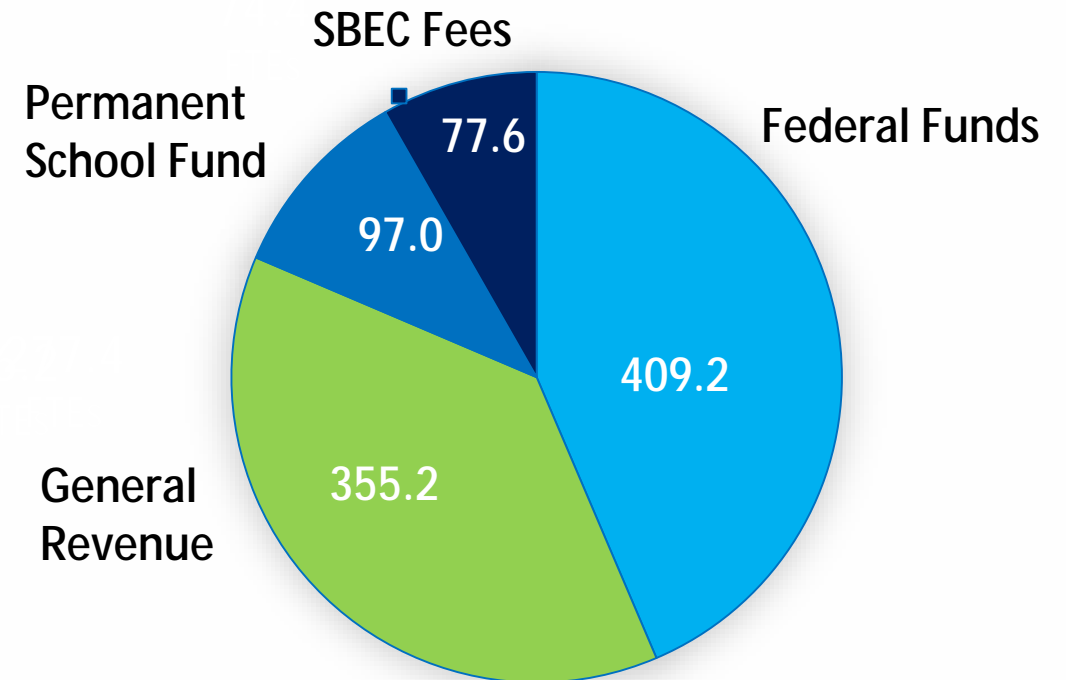
# TEA FTEs: 2018 Actual and 2020 HB1 (Introduced)

**2018 Actual FTEs:**  
**881 Employees**



**2020 HB1 FTEs:**  
**939 Employees\***

Approximately 50  
federally funded  
for SPED



# HB1 – TEA Highlights



- ✓ Additional General Revenue funding of \$9.0 billion is contingent on legislation:
  - Ø increasing the state share of the FSP
  - Ø enhancing district entitlement
  - Ø decreasing recapture
  - Ø providing local property tax relief
  - Ø while maintaining an equitable system of school finance
- ✓ Exceptional Item #1: Safe and Healthy Schools Initiative – Fully Funded (\$54.5 Million)
  - Ø \$42.5M Other Funds from the Economic Stabilization Fund (ESF) and \$12.0M in GR
- ✓ Exceptional Item #2: SPED Supports – Fully Funded (\$50.5 Million)
- ✓ \$10.0M increase for Communities in Schools
- ✓ \$5.5M increase for Adult Charter School
- ✓ \$1.7M increase Texas Advanced Placement Initiative.

## Special Education LAR Requests by TEA (Not Exceptional Items) Included in House Introduced Budget (HB1)

### Two important Special Education requests for the 2020-2021 GAA:



1. **Authorize increase in FTE Cap by 54** to include the estimated amount of FTEs needed for the Special Education Strategic Plan in order to ensure the agency has the adequate staff to carry out the plan and effectively serve this particular student population (Only 100% Federally Funded FTEs would qualify).



2. **Increase TEA Rider 25 Transfer Authority from Federal IDEA discretionary funds from \$2.5M per year to \$5M per year.** This increase is crucial if TEA is expected to properly monitor school systems and provide the support needed for Special Education students, and provide a funding source for the TEA SPED Strategic Plan.

# Significant Rider Change Requests



## Included in Introduced HB1:

- Ø **Rider 25 Limitation on Transfer and Use of Funds:** Increased amount of IDEA-Part B transfer from program to administration to support the 54 new FTEs for the Special Education Strategic Plan.
- Ø **Rider 67 Pathways in Technology Early College High School:** Aligned language with the statute.
- Ø **Deleted one-time funding for exceptional items funded by 85<sup>th</sup> Legislature**

## Requested in LAR (not included in HB1):

- Ø **UB Authority Requested on Riders:** Added UB authority to accommodate internal processes and/or any program setup needs. Without this authority there is a risk TEA will be unable to make full use of the appropriation or may experience service disruptions that would negatively impact the purpose of the funds.
- Ø **Rider 3 Foundation School Program Funding:** Updated FSP estimate information and changed “spend forward” from approval to notification only to reduce risk of proration.
- Ø **Rider 39 Capital Budget Expenditures from Federal and Other Funding Sources:** Broadening this authority would meaningfully improve TEA’s ability to take advantage of time- limited funding opportunities.
- Ø **New- Federally Funded Capital Projects:** Added new rider to provide the Agency effective execution of fully federally funded capital projects. Mirrors language found in the Department of State Health Services.



# Safe and Healthy Schools Initiative: Implementation Framework - Included in Introduced HB1



- 1) **Safe and Healthy Schools Self-Assessment Rubric:** TEA, in collaboration with the Texas School Safety Center, will **develop a "best practices" framework and associated rubric** to help districts self-assess and identify areas for potential improvement in school safety, including mental health supports.
- 2) **State and regional level technical assistance:** TEA, in collaboration with the Regional Education Service Centers (ESCs), will set up a Safe and Healthy Schools **technical assistance program to provide guidance and assistance to schools including standing up threat assessment teams** as they work to improve the mental health coordination and supports and school culture pillars.
- 3) **Statewide coordination with other agencies** including HHSC, TxSSC, and others regarding **Mental Health First Aid, Telemedicine, trauma informed care, and coordination of access to mental health professionals.**
- 4) **Fast-Track to Safer Schools Grants:** TEA would administer **grants to assist school districts** in improving their school health and safety.



# Special Education Services Grants (\$50.5M) Included in House Introduced Budget (HB1)

The Special Education Services Grants provide grants for Compensatory services for those students not properly identified as needing special education services.

Ø TEA bases the cost estimate on a **potential identification gap of up to approximately 180,000 students** (based on 2004 levels).

§ Assuming the compensatory services allocation covers one year, and each student is given an average of \$5,000 in funding for this work per year, the total cost for 10,000 students would be \$50,000,000.

§ It should be noted that more than 10,000 students could require compensatory services.

\*TEA acknowledges that this work will require significant staff capacity, but will absorb the work using the recently expanded special education staff.

A green stylized logo resembling a lowercase 'u' with two dots above it, positioned above the text "Included in Introduced Bill".

Included in  
Introduced Bill

# Windham School District: LAR Item Requests

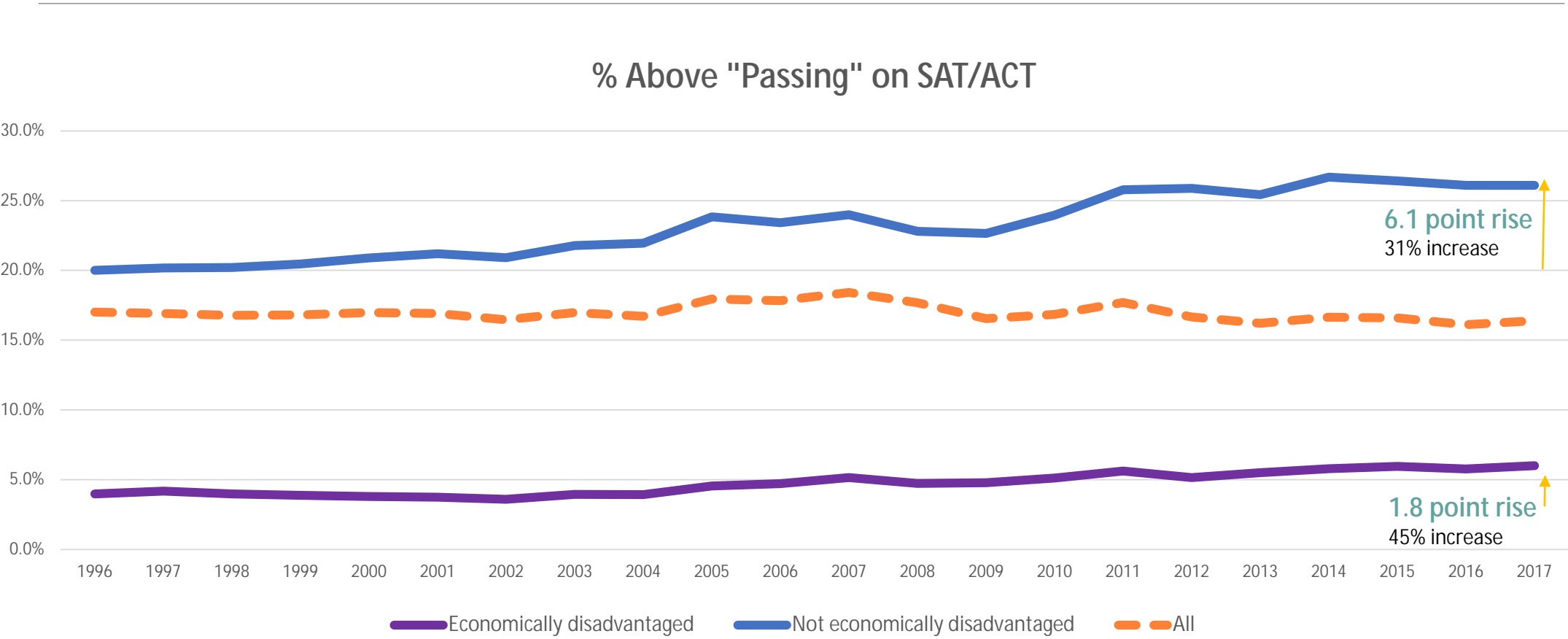
Funding Amount	Purpose
\$5.5M	6.0% across the board pay raise for 928 teachers. Windham has last appropriated funds for a pay raise in 2010.
\$2.3M	Female Offender Vocational Expansion to offer industry certification in middle-skill jobs for 1,104 female offenders.
\$0.6M	Industry Certifications expansion to increase STEM offerings to align with the current job market growth.
\$1.0M	Year-round School expansion to serve 25,000 students.
\$0.7M	Apprenticeship Expansion to gain US Department of Labor standards for on-the-job learning and Journey Worker certification in skilled occupations for 1,740 students.

# Appendix

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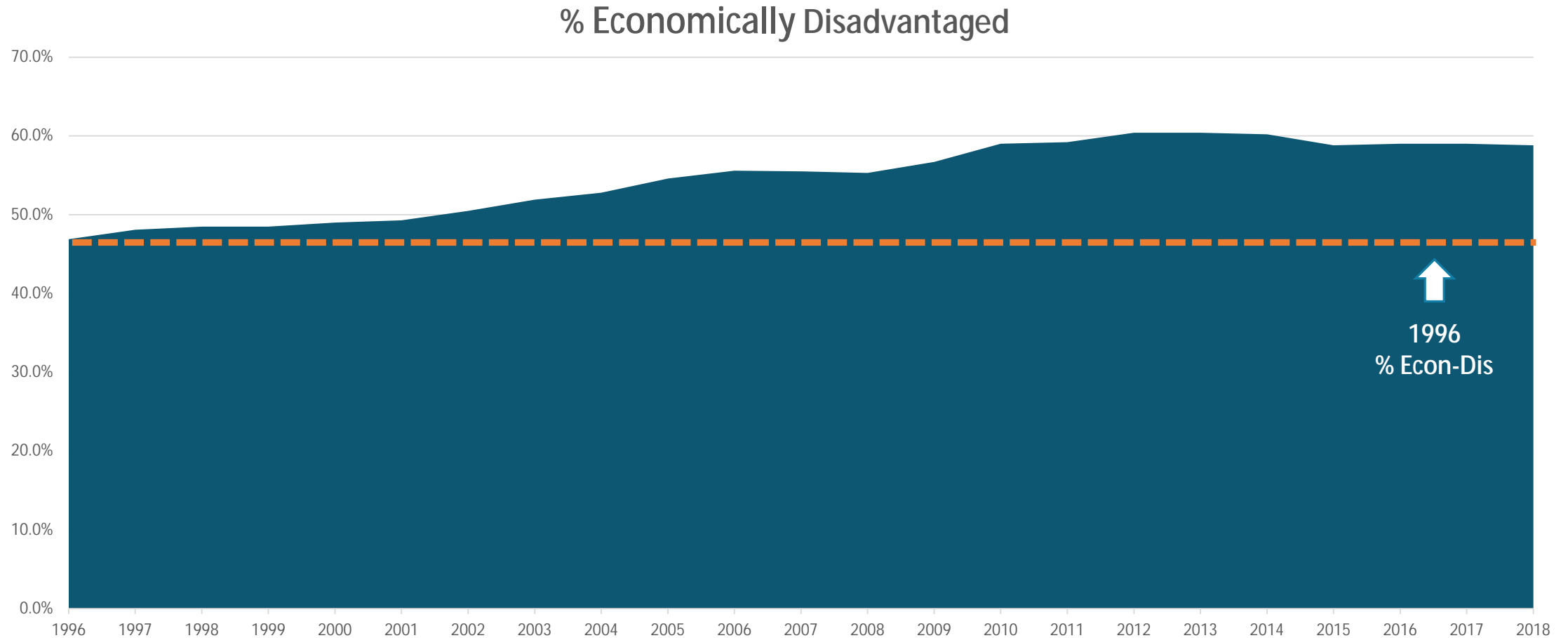
# SAT/ACT Performance By Socioeconomic Status

1996 - 2017



# Rise in Student Poverty In Texas

1996 - 2018



↑  
1996  
% Econ-Dis

# Priority 1: Recruit, Support and Retain Teachers & Principals



**Recruit, support, and retain teachers and principals**

*Teachers are the most important in-school factor effecting student outcomes.*

*High priority initiatives include:*



TEXAS LEGISLATURE  
**RIDER 53**  
85<sup>th</sup> Legislative Session

## Lesson Study

A teacher-driven approach to collaborative professional development that also produces lessons that raise student outcomes. Teacher retention is **2.0% higher for participants**.



TEXAS LEGISLATURE  
**RIDER 53**  
85<sup>th</sup> Legislative Session

## Texas Instructional Leadership Initiative

A focused principal fellowship designed to grow leadership skills. The 2017-18 participants saw a **117% increase** in campuses receiving an A or B.



TEXAS LEGISLATURE  
**RIDER 72**  
85<sup>th</sup> Legislative Session

## Protect Students from Inappropriate Relationships

Additional resources to ensure all allegations are investigated and prosecuted to keep students safe. The number of days to complete an investigation was reduced from **120 to 108 days**.



TEXAS LEGISLATURE  
**RIDER 41**  
85<sup>th</sup> Legislative Session

## Grow Your Own

A competitive grant to produce over **1000 highly trained and qualified teachers** primarily in rural communities over the next 10 years.

# Priority 2: Build A Foundation of Reading and Math



Build a **foundation** of **reading and math**

*It's much easier to address the achievement gap if we never let it start.*

High priority initiatives include:



## Pre-K Partnerships

Support for school systems to expand access of quality seats at a low cost by partnering with area child care providers. **18 LEAs participate** in partnerships.



TEXAS LEGISLATURE  
**RIDER 41**  
85<sup>th</sup> Legislative Session

## Math Innovation Zones

A system approach to improve student outcomes in math with high quality blended learning curriculum and instructional coaching. Pilot includes **9,000 students**.



TEXAS LEGISLATURE  
**RIDER 62, 63, 64**  
85<sup>th</sup> Legislative Session

## Reading and Math Academies

Intense summer training institutes for reading and math teachers combined with targeted year-long instructional coaching supports. Over **38,000 teachers trained**.



TEXAS LEGISLATURE  
**RIDER 8**  
85<sup>th</sup> Legislative Session

## Instructional Materials Support

**Optional, free, high-quality** instructional materials (OER) and a resource (Instructional Materials Portal) for school systems to more easily find and identify quality instructional materials.

# Priority 3: Connect High School To Career and College



Connect High School to **career** and **college**

*Relevancy matters.  
Teaching kids how to weld  
can make them better in  
math.*

← High priority initiatives include: →



## Beyond Grad

A suite of technical supports, conducted in collaboration with the tri-agency workforce partnership, intended to support improvements in college and career advisory supports, focused on increasing post-secondary attainment—both trade and collegiate.



## Innovative Academies: ECHS, P-TECH and T-STEM

Technical support to transform traditional high schools into models that promote direct college and career outcomes. **Seventy-three percent of students** who earn an associate's degree in high school do so through a College and Career Readiness School Model.



# Priority 4: Improve Low-Performing Schools



**Improve  
low-performing  
schools**

*Every child.  
Every classroom.  
Every day.*

*High priority initiatives include:*



TEXAS LEGISLATURE  
**RIDER 74**  
85<sup>th</sup> Legislative Session

## School Improvement and Governance

Helps to implements HB 1842 by shifting turnaround support to focus on systemic issues. **Work covers 349 Improvement Required campuses.**



TEXAS LEGISLATURE  
**RIDER 70**  
85<sup>th</sup> Legislative Session

## System of Great Schools/SB 1882

Helps districts turnaround low-performing schools and replicate great options. **Cohort includes 609 campuses.**



TEXAS LEGISLATURE  
**RIDER 43**  
85<sup>th</sup> Legislative Session

## Student Success Initiative

Assists schools in implementing a comprehensive support program by leveraging academic, community and governmental supports. **Eight school transformations are underway in the pilot.**



## Lone Star Governance

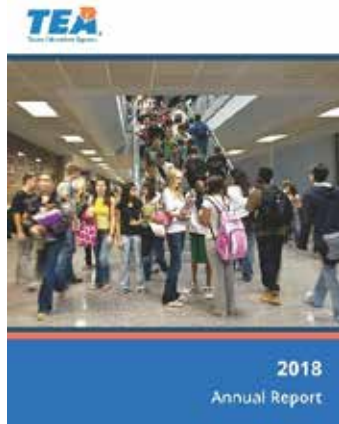
Created first-in-the-nation governance guide and workshops to empower school boards to provide district oversight with a focus on student outcomes. **46 districts have participated in LSG.**

# Enabler 1: Increase transparency, fairness and rigor in district and campus academic and financial performance



## Annual Report

In 2017, TEA developed, for the first time, an annual report on the state of Public Education in Texas. This report will provide easy to digest information for parents, teachers, community leaders and elected officials.



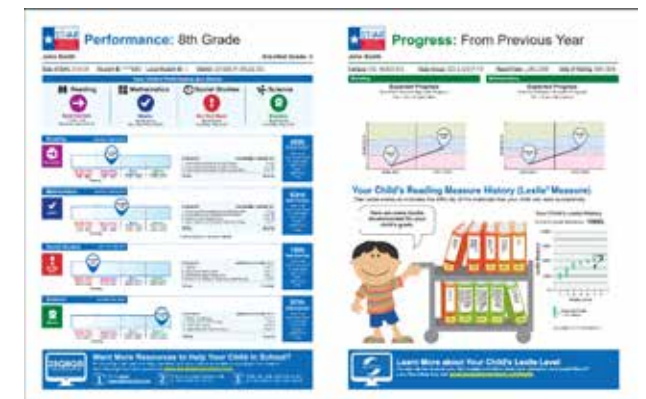
## A-F Accountability System

Continue to develop, implement, and effectively communicate the state's A-F Academic and financial accountability systems. Via TXschools.org



## STAAR Report Card

Effectively communicate to parents the outcomes of STAAR assessments and test questions as well as resources to help with reading, math and college and career readiness. Via TexasAssessment.com

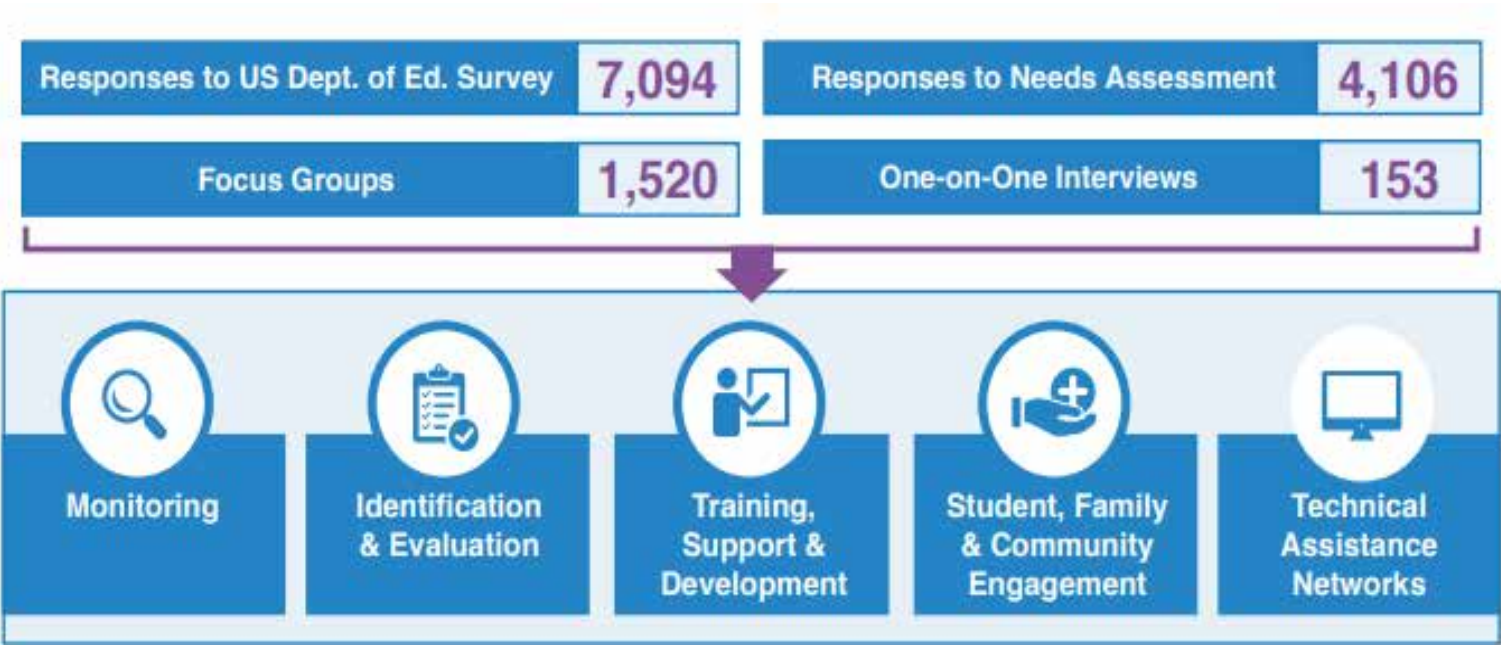


# Enabler 2: Ensure compliance, effectively implement legislation, and inform policymakers



## Special Education Strategic Plan

Completed in April 2018, this plan provides a solid foundation to make meaningful, lasting change in how our state educates and supports children with special needs. The plan is based on input received during one of the agency’s most comprehensive outreach efforts that included town halls, a statewide online survey, focus groups, and one-on-one interviews with parents, students and teachers.



## Enabler 3: Strengthen organizational foundations (resource efficiency, culture, capabilities, partnerships)

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TEXAS LEGISLATURE  
**RIDER 75**  
85<sup>th</sup> Legislative Session

### Student and Teacher Data Privacy and Cyber Security

TEA launched this initiative to address significant gaps in the agency's IT security programs to protect student and teacher data from becoming compromised.



TEXAS LEGISLATURE  
**RIDER 69**  
85<sup>th</sup> Legislative Session

### E-Rate

The Texas Classroom Connectivity Initiative increases district access to high speed bandwidth by leveraging up to a 9-1 federal-state match. **99% of school systems will have fiber-optic connections.**

# Safe and Healthy Schools Initiative: Possible Self-Assessment Rubric Framework



- 1. *Mental Health Supports:*** access to counseling resources, mental health professional networks, threat assessment protocols, and teacher and administrator training on mental health needs.
- 2. *Positive School Culture:*** character education, positive behavior supports and interventions, trauma-informed education, restorative discipline practices, suicide prevention, resiliency, anti-bullying, and anti-cyber-bullying.
- 3. *Facility Safety:*** facilities hardening and the presence of School Resource Officers (SROs) and school marshals on a campus.
- 4. *Emergency Response Coordination:*** police collaboration, drills, training on crisis and emergency response, and notification protocols.

# Safe and Healthy Schools Initiative: Funding Breakdown **Included in Introduced HB1**

## Mental Health Supports and Positive School Culture Funding

Funding Amount	FTEs	Purpose	Implementation Framework
\$2.0M	6	Focus on codifying best practices, providing sample tools, resources and effective models, providing technical support, and managing statewide grants (includes IT needs).	1., 2., 3., 4.
\$20M	0	Grants (\$20M) for programs with the ultimate goal of ensuring students on every campus across the state have access to needed behavioral health services through innovative, proven programs	3. Statewide Coordination
\$5M	0	Grants to the Regional Education Service Centers (ESCs) to support one FTE at each ESC, to provide local support and training to stand up threat assessment teams, directed by the service center but advised by TEA staff and guided by the self-assessment results and TEA audit findings	2. Technical Assistance
\$10M	0	Mental Health First Aid, Telemedicine, trauma-informed care, and coordination of access to mental health professionals, including creation and maintenance of regional and local provider lists.	3. Statewide Coordination



# Safe and Healthy Schools Initiative: Funding Breakdown **Included in Introduced HB1**

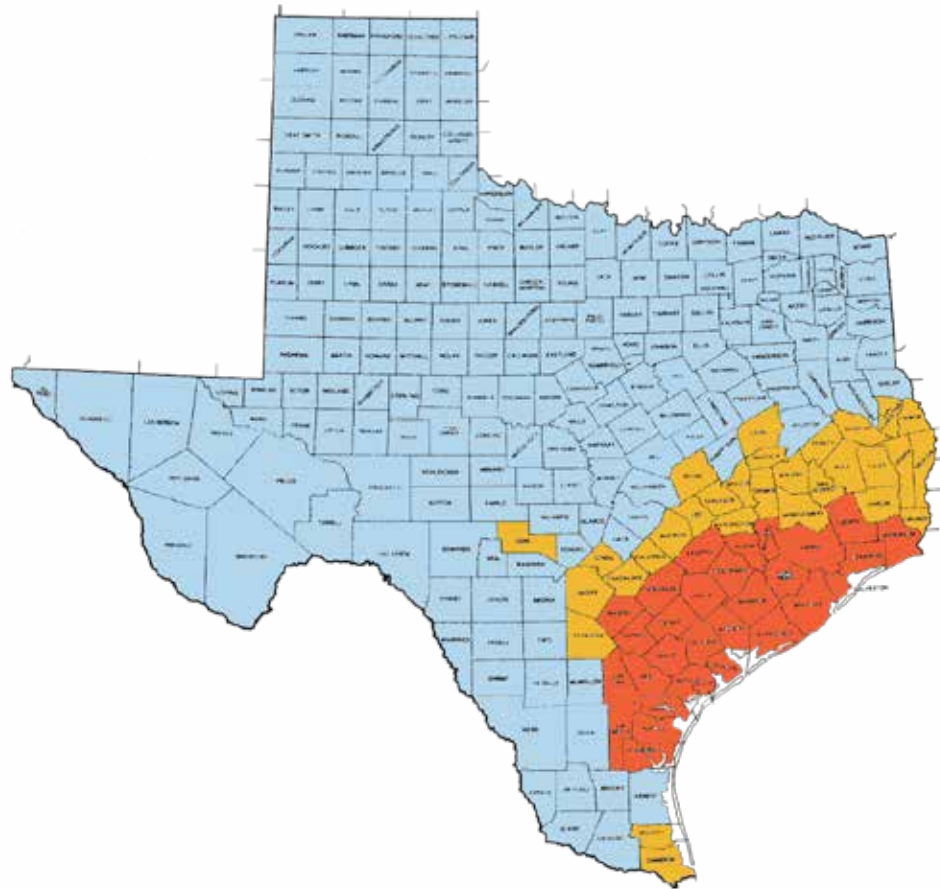
## Facility Safety and Emergency Response Coordination

Funding Amount	FTEs	Purpose	Implementation Framework
\$10M	0	Matching Grants to LEAs for facility hardening activities as a result of their self-assessment and audit.	4. Safer Schools Grants
\$2.5M	0	Grants to Texas School Safety Center to coordinate/conduct Emergency Response audits and identify LEA need for facility or school safety improvements.	1. Self-Assessment Rubric

## School Health and Safety Pilot Grants

Funding Amount	FTEs	Purpose	Implementation Framework
\$5M	0	Pilot grants for innovative programs to increase school health and safety.	4. Safer Schools Grants

# Hurricane Harvey Impact



■ Initial Disaster Declaration    ■ Subsequent Disaster Declarations

## High-level Overview



There are **60 counties** in Gov. Greg Abbott's state disaster proclamation.



More than **1.9 million students** attend public school within these counties, **1.4 million** of which were directly impacted by the storm.



**All school systems** in the 60-county area reopened with some campuses facing longer timelines to resume operation.



## Students Displaced by Harvey



- Ø 19,978 students changed LEAs
- Ø 3,973 students changed campuses
- Ø 110,626 students were displaced but remained on their home campus

## Actions To Support Districts



Flexibility &  
Waivers



ADA Hold  
Harmless



Other  
Resources



FEMA  
Support



Mental Health  
Task Force



Accountability  
Flexibility

# Hurricane Harvey School Finance Supplemental Appropriation Decision Points

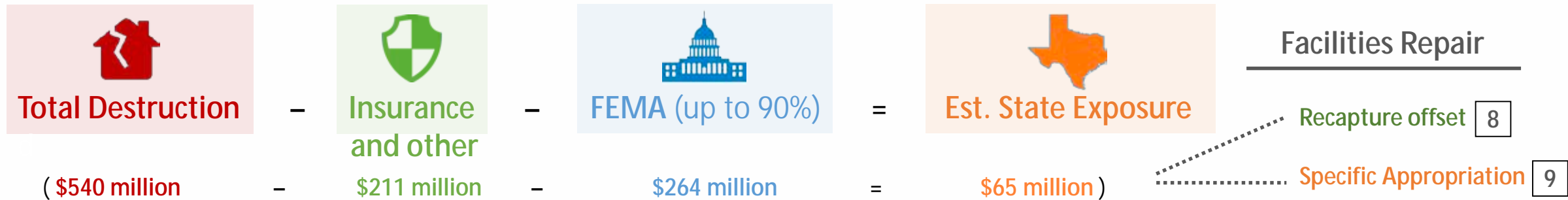
■ Already Committed
 ■ For Legislative Consideration
 ■ No Impact

	2017-18	2018-19
ADA Hold Harmless	<div>Est: <del>\$99 Million</del> <b>\$89 Million</b></div> <div>2</div>	No Impact
M&O Property Value Decline	<div>Est: \$300 Million</div> <div>3</div>	<div>Est: \$150 Million</div> <div>5b</div>
		<div>Est: \$500 Million - \$1 Billion</div> <div>5a</div>
Facilities Repair	No Impact	<div>Est: <del>\$30 Million</del> <b>Est. \$25 Million*</b></div> <div>8</div>
		<div>Est: <del>\$60 Million</del> <b>Est. \$40 Million</b></div> <div>9</div>
Student Weights	<div>Est: <del>\$103 Million</del> <b>\$110 Million</b></div> <div>10</div>	<div>Est: <del>\$44 Million</del> <b>\$183 million</b></div> <div>10</div>

# - Refers to February 1, 2019 "Hurricane Harvey School Finance Issues" worksheet
 \*Ch. 41s guaranteed funding from recapture offsets

# Current Facility Repair Estimates

To date: **\$540 million** in estimated damages has been reported by schools via a recent TEA Survey.



Separately, the Texas Education Agency has collaborated closely with the Commission to Rebuild Texas. The Commission is responsible for:

- **Marshalling state agency resources** in order to coordinate the statewide effort to rebuild public infrastructure damaged by Hurricane Harvey including roads, bridges, schools, government buildings, and other public facilities
- **Assisting local governmental entities and nonprofit organizations** to assess and identify rebuilding needs and to navigate state and federal resources available for the rebuilding effort.

# - Refers to **February 1, 2019** "Hurricane Harvey School Finance Issues" worksheet

# Mental Health Task Force



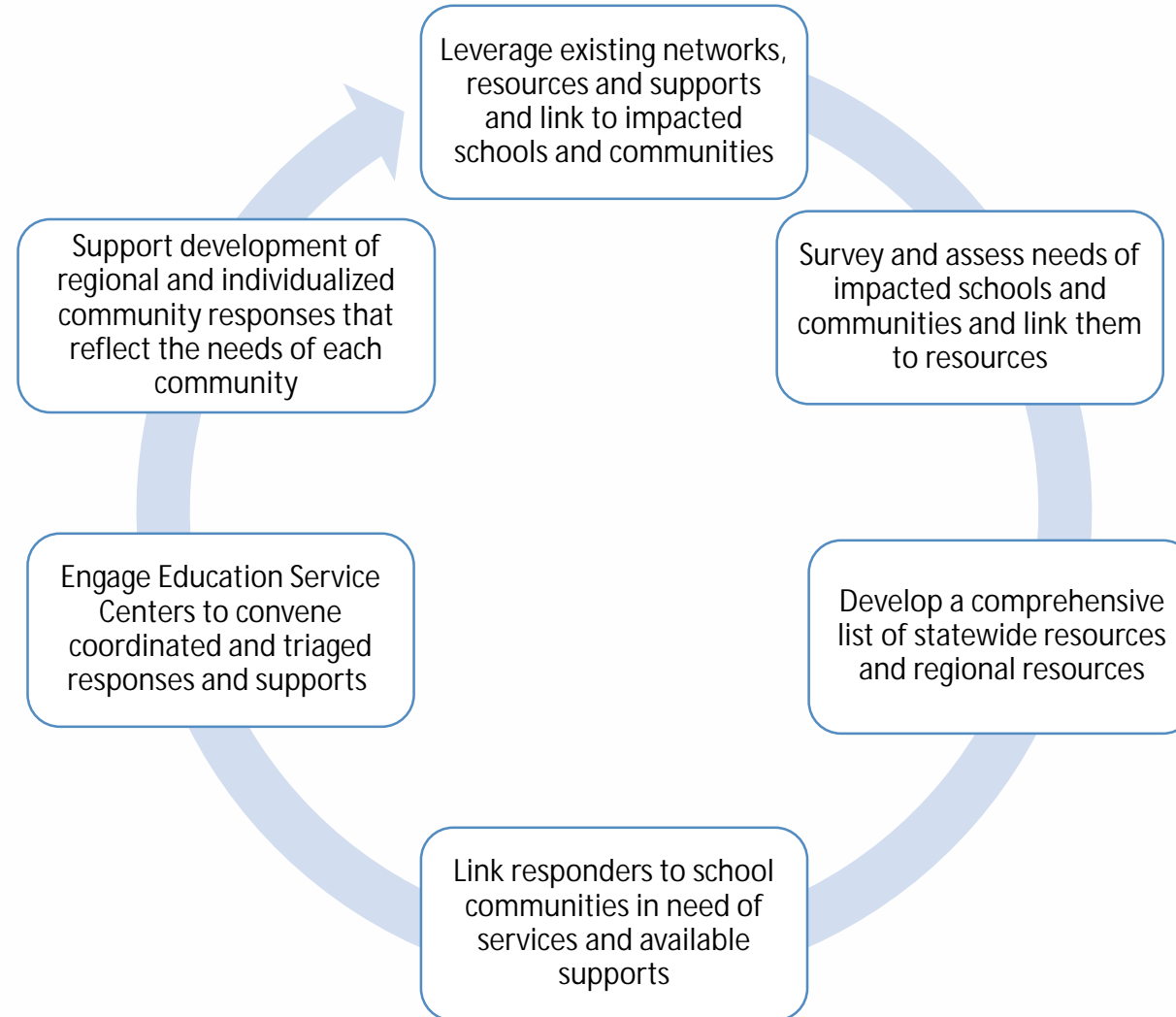
- At the request of Governor Greg Abbott, the Texas Education Agency (TEA), in partnership with the Texas Higher Education Coordinating Board (HECB) and the Health and Human Services Commission (HHSC), is spearheading the *Hurricane Harvey Task Force on School Mental Health Supports (Task Force)* to help address mental health needs at Texas schools.
- The Meadows Mental Health Policy Institute (MMHPI) is providing the Task Force with administrative, operational, and subject-matter support.

## Overview of Purpose



- The purpose of the Task Force, and all related workgroups and subcommittees is to identify needs and spur federal, state, and local coordination to link schools with resources to address identified mental and behavioral health needs.
- Ø **Short-term** – Matching needs with appropriate resources
- Ø **Long-term** – Strengthened mental and behavioral health infrastructure

# Task Force Deliverables





Hurricane Harvey School Finance Issues  
February 1, 2019 (Last update)

	Finance Issue/Response A	Is there an Outstanding Decision for the Legislature? B	FY 2018 Estimated Costs** C	FY 2019 Estimated Costs** D	Biennial Total Est. Cost** E	Legal Authority F
	<b>Pre-Pay for Attendance increases for displaced students</b>					
1	<p>Districts will experience increased enrollment due to student displacement in the 2017–2018 school year.</p> <p><b>Is this currently a legally required cost to the state?</b> Yes.</p> <p><b>Issue:</b> Many districts have newly enrolled students displaced from their home districts because of Hurricane Harvey. TEA does not normally increase Foundation School Program (FSP formula) funding to districts during the school year when there are increases in a district's student enrollment. Instead, FSP formula increases are made during the FSP settle-up process occurring in September of 2018 (FY 2019) following the school year.</p> <p><b>Legislative solution:</b> Districts can receive an increase in their state aid <i>during</i> the 2017–2018 school year if they have increased average daily attendance (ADA) and apply to TEA.</p> <p>Six districts applied for adjustments with TEA, with a total of 324 students in ADA. These districts included Calallen ISD, College Station ISD, Cuero ISD, Gregory Portland ISD, Splendora ISD, and Victoria ISD.</p>	<p>No.</p> <p>TEA issued guidance to school districts. Beginning with the October 2017 FSP formula payment, TEA will increase the amount of state aid to districts that (1) have additional ADA and (2) apply to TEA.</p> <p>To date, only six districts have applied for adjustments, with a total of 324 students ADA. These districts include Calallen ISD, College Station ISD, Cuero ISD, Gregory Portland ISD, Splendora ISD, and Victoria ISD.</p>	State cost: \$5 million	State savings: <b>(-\$5 million)</b>  These costs were shifted from FY 2019 to FY 2018.	State cost: \$0	TEC \$42.005(d). Average Daily Attendance.
	<b>Enrollment Decline</b>					
2	<p>Districts lost FSP formula funding due to student enrollment declines caused by Hurricane Harvey during the 2017–2018 school year.</p> <p><b>Is this currently a legally required cost to the state?</b> Yes. With legislative approval, TEA has agreed to hold districts harmless for 2017–2018 enrollment declines that would otherwise decrease FSP state formula funding.</p>	<p>No.</p> <p>With legislative approval, on October 9, 2018, TEA issued a To the Administrator Addressed Letter providing an ADA hold harmless option for 152 initially identified school districts and charter schools</p>	Lost recapture state revenue: <b>\$13 million</b>  Chapter 41 districts paid \$13 million less in recapture during the 2017–2018 school year as a result of the hold	State cost: <b>\$76 million</b>  \$76 million is the amount in additional state aid that was paid to Chapter 42 districts during September 2018 (FY 2019) FSP settle-up as a result of holding	State cost/lost recapture revenue: <b>\$89 million</b>	TEC \$42.005(d). Average Daily Attendance.

\*\*Amounts are estimates based on TEA's current knowledge and are subject to significant change. Some costs may be eligible for Federal Emergency Management Agency (FEMA) reimbursements. For FY 2019, TEA will request a supplemental appropriation during the 86th Texas Legislature for the difference between the amount necessary to fully fund the formulas in FY 2019 and the amount appropriated in the General Appropriations Act.



	Finance Issue/Response A	Is there an Outstanding Decision for the Legislature? B	FY 2018 Estimated Costs** C	FY 2019 Estimated Costs** D	Biennial Total Est. Cost** E	Legal Authority F
	<p><b>Issue:</b> School districts and charter schools with enrollment losses during the 2017–2018 school year had lower average daily attendance (ADA). ADA is a major component in determining FSP formula funds as Texas provides funding on a per ADA basis. Thus, a decline in ADA in the 2017–2018 school year would have normally resulted in the following:</p> <ol style="list-style-type: none"><li>For Chapter 42 districts, a loss of FSP funds in September 2018 (FY 2019) during FSP settle-up for the 2017–2018 school year.</li><li>For Chapter 41 districts, an increase in recapture made during the 2017–2018 school year.</li></ol> <p><b>Legislative solution:</b> TEA held school districts and charter schools meeting certain qualifications <i>harmless</i> for their loss of ADA during the 2017–2018 school year. This allowed districts to avoid reducing school personnel throughout the 2017–2018 school year. <b>This was a one-time adjustment for the 2017–2018 school year.</b></p> <p>As of February, 2019, TEA had approved 76 districts as eligible for the hold harmless option and ultimately 58 districts took advantage of the automatic adjustment</p>	<p>that (1) had damage to at least one facility, or (2) had instructional facilities that were closed for nine or 10 hurricane-related waiver days. The school district or charter school must complete the Governor's Commission to Rebuild Texas Worksheet.</p> <p>As of February, 2019, TEA had approved 76 districts as eligible for the hold harmless option and ultimately 58 districts took advantage of the automatic adjustment.</p>	<p>harmless for enrollment declines.</p>	<p>school districts harmless for 2017–2018 enrollment declines.</p> <p>TEA will request a supplemental appropriation for the state aid portion during the 86th Texas Legislature.</p>		
<b>2017–2018 School Year Tax Issues</b>						
3a	<p><b>Districts which did not order re-appraisals may have experienced a loss of maintenance and operations (M&amp;O) local property tax revenue during the 2017–2018 school year.</b></p> <p><b>Is this currently a legally required cost to the state?</b> No.</p> <p><b>Issue:</b> School districts experienced losses in M&amp;O local property tax revenue during the 2017–2018 school year due to delayed and uncollected tax collections. TEA collected district data and currently estimates that local M&amp;O property tax revenue collections were approximately \$150 million less than anticipated.</p> <p><b>Potential legislative solution:</b> The legislature must decide whether it wants to hold school districts harmless for the</p>	<p><b>Yes.</b></p> <p>The legislature must decide whether it wants to hold school districts harmless for the loss of anticipated local property tax revenue during the 2017–2018 school year.</p>	<p><b>Potential state cost:</b> <b>\$150 million</b></p>	<p><b>State cost: N/A.</b></p> <p>This is covered in the 2018–2019 school year tax issues in row 5b below.</p>	<p><b>Potential state cost:</b> <b>\$150 million</b></p>	<p>TEC §42.2523. Adjustment for Property Value Affected by State of Disaster.</p>

\*\*Amounts are estimates based on TEA's current knowledge and are subject to significant change. Some costs may be eligible for Federal Emergency Management Agency (FEMA) reimbursements. For FY 2019, TEA will request a supplemental appropriation during the 86th Texas Legislature for the difference between the amount necessary to fully fund the formulas in FY 2019 and the amount appropriated in the General Appropriations Act.

	Finance Issue/Response A	Is there an Outstanding Decision for the Legislature? B	FY 2018 Estimated Costs** C	FY 2019 Estimated Costs** D	Biennial Total Est. Cost** E	Legal Authority F
	\$150M loss of anticipated local property tax revenue during the 2017–2018 school year.					
3b	<p><b>Districts that re-appraised their property for the 2017 tax year realized losses in SY 2018 tax collections as a result of the re-appraisals</b></p> <p><b>Is this currently a legally required cost to the state?</b> No.</p> <p><b>Issue:</b> Twelve school districts accounting for 26% of the affected districts property value ordered reappraisals for the 2017 Tax year. These districts experienced a reduction in M&amp;O local property tax revenue during the 2017–2018 school year due to lost tax collections. TEA collected district data and currently estimates that for these districts local M&amp;O property tax revenue collections were approximately \$150 million less than anticipated.</p>	<p><b>YES</b></p> <p>The legislature could choose to hold these districts harmless for the lost collections as a result of the re-appraisal</p>	<p><b>Potential state Cost:</b></p> <p><b>\$150 million</b></p>	<p><b>State Cost: N/A</b></p> <p>This is covered in the 2018–2019 school year tax issues in row 5b below.</p>	<p><b>Potential state cost:</b></p> <p><b>\$150 million</b></p>	<p>TEC §42.2523. Adjustment for Property Value Affected by State of Disaster</p>
4	<p><b>Districts could have experienced a loss of local interest and sinking (I&amp;S) property tax revenue during the 2017–2018 school year and potentially defaulted on their debt payments. However, TEA has no knowledge of such a default occurring.</b></p> <p><b>Is this currently a legally required cost to the state?</b> No.</p> <p><b>Issue:</b> The local I&amp;S property tax revenue provides funds for the payment of the debt that districts issue to finance facilities and other capital expenditures. TEA anticipates decreases in local I&amp;S property tax revenue but is not aware of any district that failed to make its I&amp;S payments.</p> <p><b>TEA solution:</b> TEA is not aware of any district that failed to make its I&amp;S payments and has no recommendation to assist districts at this time.</p> <p><b>Note:</b> Charter schools do not levy taxes.</p>	<p><b>No.</b></p> <p>TEA will continue to monitor, but is not aware of any district that failed to make its I&amp;S payments.</p>	<p><b>State cost: \$0</b></p>	<p><b>State cost: N/A.</b></p> <p>This is covered in the 2018–2019 school year tax issues in row 6 below.</p>	<p><b>State cost: \$0</b></p>	<p>TEC §42.2523. Adjustment for Property Value Affected by State of Disaster.</p>
<b>2018–2019 School Year Tax Issues</b>						

\*\*Amounts are estimates based on TEA's current knowledge and are subject to significant change. Some costs may be eligible for Federal Emergency Management Agency (FEMA) reimbursements. For FY 2019, TEA will request a supplemental appropriation during the 86th Texas Legislature for the difference between the amount necessary to fully fund the formulas in FY 2019 and the amount appropriated in the General Appropriations Act.

	Finance Issue/Response A	Is there an Outstanding Decision for the Legislature? B	FY 2018 Estimated Costs** C	FY 2019 Estimated Costs** D	Biennial Total Est. Cost** E	Legal Authority F
5a	<p><b>Un-reappraised districts will not receive their originally estimated amount of maintenance and operations (M&amp;O) property tax revenue due to property value declines caused by Hurricane Harvey. This could cause the district to lay off personnel prior to or during the 2018–2019 school year.</b></p> <p><b>Is this currently a legally required cost to the state?</b> No. There is no state obligation to make up for maintenance and operations (M&amp;O) property tax revenue declines caused by Hurricane Harvey.</p> <p><b>Issue:</b> Un-reappraised districts will not receive their originally estimated amount of maintenance and operations (M&amp;O) property tax revenue due to property value declines caused by Hurricane Harvey. <b>Potential legislative solution:</b> The legislature must determine whether to hold districts harmless for the loss of anticipated property tax revenue due to property value declines. TEA estimates that the amount necessary to hold districts harmless for the loss of local property tax revenue is between \$500 million and \$1 billion.</p>	<p>Yes.</p> <p>The legislature must determine whether to hold districts harmless for the loss of anticipated property tax revenue due to property value declines. TEA estimates that the amount necessary to hold districts harmless for the loss of local property tax revenue is between \$500 million and \$1 billion.</p>	<p>State cost: N/A</p> <p>This is covered in the 2017–2018 tax information above.</p>	<p>Potential state cost: Between \$500 million and \$1 billion (TEA estimate of the difference between the originally anticipated local property tax revenue and currently estimated local property tax revenue).</p> <p>There is currently no state obligation to make up for maintenance and operations (M&amp;O) property tax revenue declines caused by Hurricane Harvey.</p> <p>The legislature will decide whether it wants to hold school districts fully or partially harmless for the loss of <i>anticipated</i> local property tax revenue during the 2018–2019 school year.</p> <p>TEA estimates that the amount necessary to hold districts harmless for the loss of local property tax revenue is between \$500 million and \$1 billion.</p>	<p>Potential state cost: Between \$500 million and \$1 billion</p>	<p>TEC §42.2523. Adjustment for Property Value Affected by State of Disaster.</p>
5b	<p><b>Districts that reappraised their property will have lower local property tax collections and therefore, will receive more state formula funding.</b></p> <p><b>Is this currently a legally required cost to the state?</b> Yes. TEA is required by the FSP formulas to provide increased FSP formula state aid for districts that reappraised their property value and lost local property tax revenue as a result.</p> <p><b>Issue:</b> Beginning with the 2018–2019 school year, the state is legally obligated to “make-up” state aid (state share) for any reported loss of local property tax revenue on reappraised 2017 tax year property.</p> <p><b>TEA solution:</b> TEA is paying additional state aid to make up for the loss of local property tax revenue. TEA will ask for a</p>	<p>No.</p> <p>TEA is paying additional state aid to make up for the loss of local property tax revenue.</p> <p>TEA will ask for a supplemental appropriation for the difference between amounts appropriated and actual district entitlements.</p>	<p>State cost: \$0</p> <p>N/A. This is covered in the 2017–2018 tax information above.</p>	<p>State cost: \$150 million</p> <p>Combined, these districts account for 26% of the tax base of the affected districts. TEA’s \$150 million estimate assumes a seven-percent decline in value due to reappraisals.</p>	<p>State cost: \$150 million</p>	

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	Finance Issue/Response A	Is there an Outstanding Decision for the Legislature? B	FY 2018 Estimated Costs** C	FY 2019 Estimated Costs** D	Biennial Total Est. Cost** E	Legal Authority F
	supplemental appropriation for the difference between amounts appropriated and actual district entitlements.  TEA is aware of 12 school districts that have voted to reappraise their 2017 taxable property values: Conroe ISD, Fort Bend ISD, Humble ISD, Katy ISD, Lamar CISD, La Porte ISD, Magnolia ISD, Montgomery ISD, New Caney ISD, Splendora ISD, Spring Branch ISD, and Willis ISD.					
6	<p><b>As property values have declined, districts may be required to increase their local interest &amp; sinking (I&amp;S) tax rates to cover debt service payments during the 2018–2019 school year. This may result in higher local tax bills in certain districts.</b></p> <p><b>Is this currently a legally required cost to the state?</b> No.</p> <p><b>Issue:</b> School districts are required to levy an I&amp;S tax rate to provide enough property tax revenue to pay for the debt for their facilities and other capital expenditures. School districts may experience losses in I&amp;S local property tax revenue during the 2018–2019 school year and be required to raise I&amp;S tax rates. This may result in higher local tax bills in certain districts.</p> <p><b>Potential legislative solution:</b> The legislature must determine whether to hold districts harmless so that they are not required to raise their tax rates. TEA estimates the amount necessary to hold districts harmless for the loss of I&amp;S local property tax revenue is \$132 million.</p> <p><b>Note:</b> Charter schools do not levy taxes.</p>	<p><b>Yes.</b></p> <p>The legislature will decide whether it wants to hold school districts fully or partially harmless so that they will not have to increase local I&amp;S property taxes rates.</p> <p>TEA estimates the hold harmless amount required to be paid to districts to be \$132-\$260 million.</p>	<p><b>State cost: N/A.</b></p> <p>This is covered in the 2017–2018 school year tax issues (above).</p>	<p><b>Potential state cost: \$132-\$260 million</b></p> <p>The legislature will decide whether it wants to hold school districts fully or partially harmless so that they will not have to increase local I&amp;S property taxes rates.</p>	<p><b>Potential state cost: \$132-\$260 million</b></p> <p>The legislature could consider options to help mitigate the tax increase. However, I&amp;S rates were adopted in the summer of 2018.</p>	<p>TEC §45.003 Bonds and Tax Elections.</p> <p>TEC §45.052 Guaranteed Bonds.</p> <p>TAX §26.08a Election to Ratify School Taxes</p>
7	<p><b>Districts with enrollment losses during the 2017–2018 school year had lower average daily attendance, which in turn decreased the amount of their potential Instructional Facilities Allotment (IFA) or Existing Debt Allotment (EDA) state aid during the 2017–2018 school year settle-up that occurred in September of 2018 (FY 2019).</b></p> <p><b>Is this currently a legally required cost to the state?</b> Yes.</p>	<p><b>No.</b></p> <p>1. For the 2017–2018 school year, TEA held school districts meeting certain qualifications <i>harmless</i> for their loss of ADA. This is anticipated to largely stabilize their IFA and EDA state aid amounts. This is a one-time</p>	<p><b>State cost: N/A.</b> Cost is included in <b>\$89 million</b> ADA hold harmless in row 2 above.</p> <p>TEA held school districts meeting certain qualifications <i>harmless</i> for their loss of ADA. This will largely stabilize their IFA</p>	<p><b>State cost: \$10 million</b></p> <p>Qualifying districts that reappraised will receive additional EDA and IFA state aid funding to make up for lost local property value and property tax revenue. See 5b above.</p>	<p><b>State cost: \$10 million</b></p>	<p>TEC §46.003 IFA</p> <p>TEC §46.032 EDA</p>

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	Finance Issue/Response A	Is there an Outstanding Decision for the Legislature? B	FY 2018 Estimated Costs** C	FY 2019 Estimated Costs** D	Biennial Total Est. Cost** E	Legal Authority F
	<p><b>Issue:</b> Approximately 39 of the 130 affected school districts receive approximately \$47 million in state FSP aid for the IFA or EDA. These programs help districts pay for the debt they incur for facilities and other capital expenditures.</p> <p><b>TEA solution:</b></p> <ol style="list-style-type: none"><li>For the 2017–2018 school year, TEA held school districts meeting certain qualifications <i>harmless</i> for their loss of ADA. This will largely stabilize their IFA and EDA state aid amounts. <b>This is a one-time adjustment for the 2017–2018 school year.</b> See row 2 above.</li><li>For the 2018–2019 school year, qualifying districts that reappraised will receive additional EDA and IFA state aid funding to make up for lost local property value and property tax revenue. See row 5b above.</li></ol> <p><b>Note:</b> Charter schools are not eligible for IFA or EDA funding.</p>	<p>adjustment for the 2017–2018 school year. See row 2 above.</p> <ol style="list-style-type: none"><li>For the 2018–2019 school year, qualifying districts that reappraised will receive additional EDA and IFA state aid funding to make up for lost local property value and property tax revenue. See row 5b above.</li></ol>	<p>and EDA amounts. <b>This is a one-time adjustment for the 2017–2018 school year.</b> See row 2 (above).</p>			

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	Finance Issue/Response A	Is there an Outstanding Decision for the Legislature? B	FY 2018 Estimated Costs** C	FY 2019 Estimated Costs** D	Biennial Total Est. Cost** E	Legal Authority F
	<b>Facilities Issues</b>					
8	<p><b>Chapter 41 districts that experienced facilities damage due to Hurricane Harvey may not have enough funds to cover their recapture payments.</b></p> <p><b>Is this currently a legally required cost to the state?</b> Yes, in forgone recapture funding to the state treasury.</p> <p><b>Issue:</b> Chapter 41 school districts that have property damage can apply for a reduction or elimination in their recapture payment to the state for the 2017–2018 and 2018–2019 school years for any instructional facility damage costs <i>not</i> covered by insurance or FEMA. Importantly, however, districts cannot recover <i>more than their recapture payment amounts</i> (but see row 9 below).</p> <p><b>TEA solution:</b> Chapter 41 districts with eligible remediation costs can offset recapture payments by applying to TEA in the 2017–2018 and 2018–2019 school years. To date, TEA has received six applications from Sheldon ISD, Friendswood ISD, Texas City ISD, Port Aransas ISD, Calhoun County ISD and Houston ISD. Sheldon ISD has been approved for \$525,888. Friendswood ISD was denied. Port Aransas was denied, but TEA understands the district is planning to resubmit for only eligible expenses, and the rest of the applications (totaling \$2.7 million) are pending.</p>	<p><b>No.</b></p> <p>Chapter 41 districts can apply to TEA for disaster aid assistance to reduce their recapture payments for the 2017–2018 and 2018–2019 school years.</p> <p>Eligible facilities replacement costs obtained by TEA via survey are estimated at \$540 million, \$390 million of which would be realized by Chapter 41 districts. After FEMA and insurance, it is estimated that the amount of unreimbursed disaster remediation costs that would be offset against recapture for Chapter 41 districts total \$25 million.</p>	<p><b>Lost recapture state revenue: \$0</b></p> <p>Loss of budgeted recapture to state treasury.</p> <p>Due to TEA requirements in documenting unremediated losses, TEA anticipates the majority of losses will be realized in the 2018–2019 school year.</p>	<p><b>Lost recapture state revenue: \$25 million</b></p> <p>Loss of budgeted recapture to state treasury.</p>	<p><b>State cost: \$25 million</b></p>	<p>TEC §41.0931 Disaster Remediation Costs.</p>
9	<p><b>Chapter 42 districts that experienced facilities damage due to Hurricane Harvey can receive facilities assistance, and Chapter 41 districts that experienced facilities damage due to Hurricane Harvey can receive facilities assistance beyond their recapture payment amounts.</b></p> <p><b>Is this a legally required cost to the state?</b> No.</p> <p><b>Issue:</b> The Texas Education Code provides that (1) Chapter 42 districts can receive facilities assistance, and (2) Chapter 41 districts can receive facilities assistance beyond their recapture payment amounts (see row 8 above), only if there is an FSP surplus in the fiscal year. Even if there is an FSP</p>	<p><b>Yes.</b></p> <p>TEA is encouraging districts to work with their insurance providers and FEMA to determine unreimbursed damage amounts and turn in applications to TEA. To date, TEA has received no qualifying applications.</p> <p>Eligible facilities replacement costs obtained by TEA via survey are estimated at \$540 million, \$150 million of which would be realized by Chapter 42 districts. After FEMA</p>	<p><b>Potential increased state aid payments: \$0 million</b></p> <p>Due to TEA requirements in documenting unremediated losses, TEA anticipates the majority of losses will be realized in the 2018–2019 school year.</p>	<p><b>Potential increased state aid payments: \$40 million</b></p> <p>\$0 unless there is a sufficient FSP formula surplus in FY 2019.</p> <p>The legislature could provide additional funding as part of a supplemental appropriation during the 86th Texas Legislature.</p>	<p><b>Potential state cost: \$40 million</b></p>	<p>TEC §42.2524 Reimbursement for Disaster Remediation Costs.</p>

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	Finance Issue/Response A	Is there an Outstanding Decision for the Legislature? B	FY 2018 Estimated Costs** C	FY 2019 Estimated Costs** D	Biennial Total Est. Cost** E	Legal Authority F
	<p>surplus, TEA must first use the surplus to finance special education camera needs.</p> <p><b>Note:</b> Based on preliminary information, TEA has learned that FEMA may cover up to 90 percent of uninsured loss, leaving districts with at least a 10 percent uninsured and uncovered loss.</p> <p><b>Potential legislative solution:</b> For school year 2017–2018, the only <i>potential</i> legal mechanism TEA can use to assist districts is to borrow money from FY 2019 and declare an FSP surplus in FY 2018. This has never been done before. Further, the surplus would first be required to be used for special education camera needs.</p> <p>For school year 2018–2019, the legislature could provide additional funding as part of a supplemental appropriation during the 86th Texas Legislature.</p>	<p>and insurance, it is estimated that the amount of unreimbursed disaster remediation costs for Chapter 42 districts and Chapter 41 districts that have exhausted recapture offsets total \$40 million.</p>				
Other Funding Issues						
10	<p><b>Students will be newly eligible to generate State Compensatory Education (SCE) FSP formula funds, which will increase FSP state formula costs.</b></p> <p><b>Is this currently a legally required cost to the state?</b> Yes.</p> <p><b>Issue:</b> Data from the Texas Department of Agriculture (TDA) National School Lunch Program (free and reduced-price lunch) indicated that districts had more students qualifying for the FSP formula SCE weight during the 2017–2018 and 2018–2019 school years.</p> <p><b>TEA solution:</b> For the 2017–2018 school year, TEA estimates that 80,500 additional students qualified for the SCE weight in the school finance system. Consistent with current practice, TEA updated its FSP formulas related to SCE in February of 2018. As a result, affected districts recognized increases to state aid for SCE–identified students beginning with their February 2018 FSP payments.</p>	<p><b>No.</b></p> <p>TDA collects and provides National School Lunch Program student eligibility data to TEA. Per customary practice, TEA incorporated TDA data into the FSP system for the 2017–2018 school year during February of 2018. Thus, affected districts recognized increases to state aid beginning with their February 2018 FSP payments.</p>	<p><b>State cost: \$110 million</b></p>	<p><b>State cost: \$183 million</b></p> <p>Costs will vary depending on the number of additional students eligible for free or reduced-price lunch.</p>	<p><b>State cost: \$293 million</b></p>	<p>TEC §42.152. Compensatory Education Allotment.</p>
11	<p><b>Districts will incur unreimbursed storm recovery costs.</b></p>	<p><b>Yes.</b></p>	<p><b>Potential state cost: \$0</b></p>	<p><b>Potential state cost: \$0</b></p>	<p><b>Potential state cost: \$0</b></p>	

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	Finance Issue/Response A	Is there an Outstanding Decision for the Legislature? B	FY 2018 Estimated Costs** C	FY 2019 Estimated Costs** D	Biennial Total Est. Cost** E	Legal Authority F
	<p><b>Is this currently a legally required cost to the state?</b> No.</p> <p><b>Issue:</b> Affected districts may face storm recovery expenditures for transportation, additional counselors, student mental health needs, and overtime for auxiliary and maintenance staff.</p> <p><b>Potential legislative solution:</b> The legislature could provide additional funding as part of a supplemental appropriation during the 86th Texas Legislature.</p>	The legislature could provide additional funding as part of a supplemental appropriation during the 86th Texas Legislature.	All additional costs are borne by school systems.	All additional costs are borne by school systems.  The legislature could provide additional funding as part of a supplemental appropriations bill during the 86th Texas Legislature.		
12	<p><b>Education service centers (ESCs) are incurring additional costs.</b></p> <p><b>Is this currently a legally required cost to the state?</b> No, but TEA has pledged assistance.</p> <p><b>Issue:</b> ESCs are incurring substantial costs as they help districts with hurricane-related remediation.</p> <p><b>TEA solution:</b> TEA has pledged to help the ESCs, possibly by using its FSP transfer authority in Rider 25 of the 2018–2019 General Appropriations Act.</p>	<p><b>No.</b></p> <p>TEA will continue to collect hurricane-related costs from the ESCs and report to the legislature.</p>	<b>State cost: \$1 million</b>	<b>State cost: \$1 million</b>	<b>State cost: \$2 million</b>	

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**WINDHAM SCHOOL DISTRICT**  
**House Appropriations Committee – February 2019**

Chairman Zerwas and Committee Members: Thank you for the opportunity to present information on the Windham School District.

Windham was established in 1969 to serve the population of the Texas Department of Criminal Justice, hereafter referred to as TDCJ. The 68,000 students Windham serves has an average academic attainment of 5<sup>th</sup> grade sixth month and an average age of 32. They have typically little to no vocational skills and have inconsistent employment history. Windham targets academic skills that bring students to a level of literacy to engage in community effectively, provides instruction in behavior, choice and habits that lower criminogenic thinking, and most importantly, training in vocational skills that afford a meaningful career with a living wage.

Windham students exhibit a statistically lower recidivism than non students, gain employment significantly faster and have higher wages than those that did not gain vocational training from Windham while incarcerated. The cost benefit to the State exceeds the program expenditures Windham spends on educational services. The supplemental materials provided to each of you will outline the success of the programs that Windham offers.

Windham is asking for additional funds this Session to continue to provide third party vocational certification to students. Windham has increased the number of certifications from approximately 6,000 in 2013 to over 33,000 in 2018. This has required a significant expenditure, over \$450,000 per year, for which Windham has not received additional funds. In order to maintain this level of training, Windham is asking for \$600,000 for the biennium.

Additionally, Windham is asking for funding to support year round school programming. Windham is funded for teaching staff to work 220 days per school year. This results in approximately seven weeks that students are not served. A significant number of students (over 35%) were identified, while in public school, with various disabilities that impact educational attainment. Research shows that students with learning disabilities do not make learning gains as fast, and in fact, often regress in learning during extended breaks such as summer.

**WINDHAM SCHOOL DISTRICT**  
**House Appropriations Committee – February 2019**

Windham is asking for \$1,000,000 in additional funds to provide instruction to approximately 25,000 students that would not be served during the longer breaks in the educational calendar found in summer, spring break, and over the winter holiday.

Windham is also asking for \$670,000 to expand apprenticeship programming to support the work experience on the job training that offenders working in TDCJ manufacturing and maintenance gain, and \$2,281,000 for the expansion of female vocational training.

Lastly, Windham utilizes certified teachers in instruction. Because of the challenges in the education of this population, trained teachers provide the best results in academic gains. Windham has not received a legislative increase in funding for teacher salaries since 2009. The fact that Windham is not as competitive in salaries as public schools has made recruiting highly qualified staff a challenge. Windham is asking for \$5,503,586 for the biennium to provide a six percent salary increase for field based staff, which would include certified teachers, counselors, librarians, instructional specialists and others that work directly with the campuses on the units.

This concludes my presentation. Do you have any questions?

## Windham School District Exceptional Items

2020 – 2021 Legislative Appropriation Request  
Submitted to the Texas Education Agency

**FY20: \$5,269,024**

**FY21: \$4,786,030**

**Biennial Total: \$10,055,053**

### Funding Request Summary

	FY20	FY21	Biennial Total
Teacher and Field Staff Pay Raise:	\$2,751,793	\$2,751,793	\$5,503,586
Industry Certs:	\$300,000	\$300,000	\$600,000
Year Around School:	\$500,000	\$500,000	\$1,000,000
Apprentiship Program Expansion:	\$335,000	\$335,000	\$670,000
Female Offender Vocational Expansion:	\$1,382,230	\$899,236	\$2,281,467
	<b>\$5,269,024</b>	<b>\$4,786,030</b>	<b>\$10,055,053</b>

### Justification:

#### Teacher and Field Staff Pay Raise

Windham School District (WSD) is requesting a pay raise for teacher and support staff in the field to provide a 6% pay increase totaling \$5,503,586 for the biennium. Windham was last appropriated funds for an educator pay raise in fiscal year 2010. WSD teachers must meet the certificate and licensure requirements of the State Board of Educator Certification. This requirement is similar to other teachers within public school systems and this pay raise will assist WSD in meeting the strategic goal of recruiting and retaining highly qualified teachers and field staff. This pay raise will impact 928 positions.

#### Industry Certifications

Windham students earned 27,713 industry certifications in fiscal year 2017. This is a significant increase from 2015 and 2016 when students earned 11,183 and 18,532 certifications respectfully. This increase can be attributed to a revision of course hours/ lengths and the addition of multiple certifications to WSD course offerings. Revising existing programming allows for more students to have greater opportunities for certificate attainment. This expansion includes increased STEM class offerings for offenders resulting in a higher per unit cost for industry certifications. This emphasis aligns with the current job market growth within the STEM areas. Windham is requesting \$600,000 for the biennium to continue offering and expanding industry certifications.

#### Year Around School

Windham has successfully provided classroom educational opportunities during school breaks on a limited basis. In order to continue and expand serving students during regular school breaks we are requesting \$1,000,000 for the biennium in order to serve 25,000 students per year.

#### Apprenticeship Expansion

Windham is requesting to expand the TDCJ/WSD apprenticeship program to gain US Department of Labor standards for on-the-job learning and Journey Worker certification in skilled occupations. The cost to service 1,740 offenders would be \$670,000 for the biennium for two additional staff and operating expenses.

#### Female Offender Vocational Expansion

Windham is requesting to expand vocational programming for female offenders which will offer industry certification in middle-skill STEM jobs. The cost to serve 1,104 female offenders in vocational would be \$2,281,467 for the biennium for 10 additional staff and operating expenses. This would increase the number of industry certifications by 3,888.

# Windham School District

## Rider 6



**January 2019**

### **Introduction**

This report is in response to the General Appropriations Act, S.B. 1, Article III – 7, Rider 6 from the Eighty-fifth Legislature. Rider 6 stipulates that for students who completed the district's program during the 2016 – 2017 biennium, the Windham School District (WSD) shall report to the Eighty-sixth Legislature on the following: recidivism rates, employment rates, and attainment of GEDs, high school diplomas, professional certification, and adult education literacy levels.

### **Recidivism Rates**

A recidivism report on participating students of the 2016-2017 biennium was not possible because a minimum of three years post-release is required to measure recidivism. However, to be responsive to the Legislature, the WSD contracted for a report to evaluate the recidivism rate for the School Year (SY) 2013 through SY 2014 release cohorts. The results as identified in the *WSD Biennial Evaluation and Report* by the Institute for Measurement, Analysis and Policy at Texas Tech University are as follows:

Compared to those who had not completed WSD programming, those who had completed:

- WSD Cognitive Intervention Program (CIP) during the current incarceration were 10.6% less likely to recidivate;
- WSD Vocational (referred to as CTE) programs during the current incarceration were 18.7% less likely to recidivate;
- WSD Academics during the current incarceration were 3.0% less likely to recidivate;
- WSD Changing Habits and Achieving New Goals to Empower Success (CHANGES) during the current incarceration were 9.0% less likely to recidivate;
- Multiple WSD programs (two or more) averaged to be 19.0% less likely to recidivate;

Note: Propensity Score Matching (PSM) for group comparisons was utilized and the values are expressed as percent difference for recidivism and employment rates.

It should also be noted that Academic completion may/may not reflect an immediate positive impact regarding recidivism when viewed in isolation. However, the Academic program serves as a literacy foundation for the other programs by providing offenders with literacy tools to better experience optimal benefit of additional WSD programs. Academic skills often provide a baseline (i.e., HSEC) that makes one eligible for employment.

### Employment Rates

An employment rate report on participating students of the 2016-2017 biennium was not possible because a minimum of three years must lapse to allow for the capture of post-release earning data. However, to be responsive to the Legislature, the WSD contracted for a report to evaluate the employment rate for the SY 2013 through SY 2014 release cohorts. The results as identified in the *WSD Biennial Evaluation and Report* are as follows:

PSM offenders compared to those who did not have any WSD programming:

- WSD Cognitive Intervention Program (CIP) during the current incarceration were 8.2% more likely to obtain employment;
- WSD Vocational (referred to as CTE) programs during the current incarceration were 9.0% more likely to obtain employment;
- WSD Academics during the current incarceration were 4.2% more likely to obtain employment;
- WSD Changing Habits and Achieving New Goals to Empower Success (CHANGES) during the current incarceration were 5.6% more likely to obtain employment;
- Multiple WSD programs (two or more) averaged to be 6.9% more likely to obtain employment;

### Attainment of GED (HSEC)

According to the *WSD Annual Performance Report 2015 - 2016*, the number of HSECs awarded during SY 16 was 5,158.

According to the *WSD Annual Performance Report 2016 - 2017*, the number of HSECs awarded during SY 17 was 4,921.

### High School Diplomas

According to the *WSD Annual Performance Report 2015 - 2016*, the number of high school diplomas awarded during SY 16 was 75.

According to the *WSD Annual Performance Report 2016 - 2017*, the number of high school diplomas awarded during SY 17 was 86.

### Professional Certifications

According to the *WSD Annual Performance Report 2015 - 2016*, 12,237 Vocational Certificates were issued, and an additional 18,532 Industry Certificates were awarded.

According to the *WSD Annual Performance Report 2016 - 2017*, 20,157 Vocational Certificates were issued, and an additional 27,713 Industry Certificates were awarded.

### Adult Education Literacy Levels

According to the *WSD Annual Performance Report 2015 – 2016*, the literacy completions were as follows:

<b>Completion of Literacy Levels 2015-2016</b>			
<b>Beginning Level</b>	<b>Number of Students With Post Tests</b>	<b>Number of Students Completing the Level</b>	<b>Percent Completing Level</b>
Level I (0.0 to 3.9)	1,942	924	47.6%
Level II (4.0 to 5.9)	4,645	2,260	48.7%
Level III (6.0 and above)	10,201	3,309	32.4%
<b>Total</b>	<b>16,788</b>	<b>6,493</b>	<b>38.7%</b>

According to the *WSD Annual Performance Report 2016 – 2017*, the literacy completions were as follows:

<b>Completion of NRS* Educational Functioning Levels 2016-2017</b>				
<b>Beginning Educational Functioning Level</b>	<b>Grades within Functioning Level</b>	<b>Number of Students Beginning Level</b>	<b>Number of Students Completing the Level</b>	<b>Percent Completing Level*</b>
Level 1 (0.0 to 1.9)	K & 1st	159	127	80%
Level 2 (2.0 to 3.9)	2nd & 3rd	2,031	1,061	52%
Level 3 (4.0 to 5.9)	4th & 5th	5,000	2,555	51%
Level 4 (6.0 to 8.9)	6th, 7th & 8th	7,390	3,141	43%
Level 5 (9.0 to 10.9)	9th & 10th	2,762	1,722	62%
Level 6 (11.0 to 12.9)	11th & 12th	2,394	2,078	87%
<b>Total</b>		<b>19,736</b>	<b>10,684</b>	<b>54%</b>

\*NRS - National Reporting System

The following reports can be viewed in their entirety at [www.wsdtx.org](http://www.wsdtx.org).

- *Windham School District Biennial Evaluation and Report*
- *WSD Annual Performance Report 2015 – 2016*
- *WSD Annual Performance Report 2016 – 2017*

## Teacher Retirement System Summary of Recommendations - House

Page III-37

Brian Guthrie, Executive Director

Avery Saxe, LBB Analyst

Method of Financing	2018-19 Base	2020-21 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$5,077,961,727	\$4,937,134,870	(\$140,826,857)	(2.8%)
GR Dedicated Funds	\$85,551,314	\$48,757,629	(\$36,793,685)	(43.0%)
<i>Total GR-Related Funds</i>	<i>\$5,163,513,041</i>	<i>\$4,985,892,499</i>	<i>(\$177,620,542)</i>	<i>(3.4%)</i>
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$239,857,788	\$482,834,409	\$242,976,621	101.3%
<b>All Funds</b>	<b>\$5,403,370,829</b>	<b>\$5,468,726,908</b>	<b>\$65,356,079</b>	<b>1.2%</b>

	FY 2019 Budgeted	FY 2021 Recommended	Biennial Change	Percent Change
FTEs	574.3	618.3	44.0	7.7%

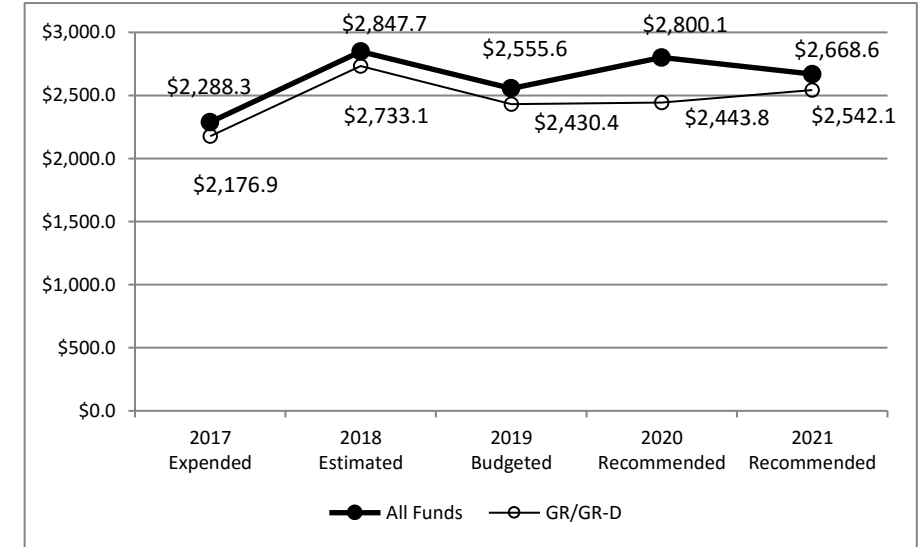
### Agency Budget and Policy Issues and/or Highlights

- The Teacher Retirement System is under Strategic Fiscal Review for the Eighty-sixth Legislative Session.
- Recommendations include \$230.8 million in Economic Stabilization Funds above statutorily required amounts for TRS-Care in the 2020-21 biennium.
- Biennial General Revenue Related decrease is due primarily to \$394.6 million in onetime additional TRS-Care funding included in the 2018-19 base, partially offset by a net increase of \$217.0 million relating to anticipated payroll growth.
- Recommendations include \$252.1 million in Pension Trust Funds for pension administration. Administrative costs of healthcare and 403(b) programs are paid using non-appropriated trust funds.

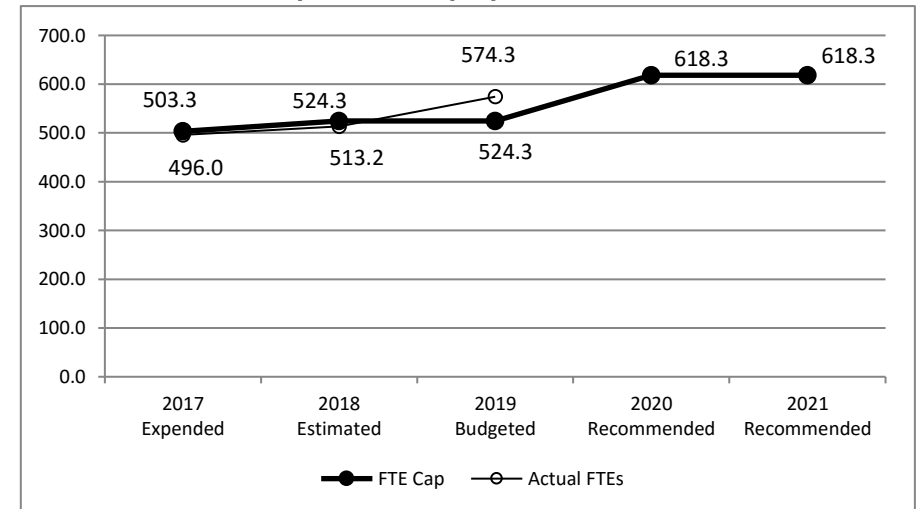
The bill pattern for this agency (2020-21 Recommended) represents an estimated 2.5% of the agency's estimated total available funds for the 2020-21 biennium.

## Section 1

### Historical Funding Levels (Millions)



### Historical Full-Time-Equivalent Employees (FTEs)

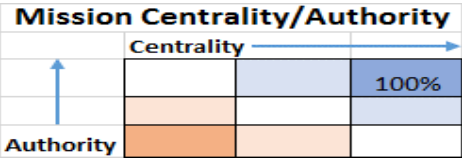




Teacher Retirement System  
Strategic Fiscal Review Program Summary - House

Teacher Retirement System

The mission of the Teacher Retirement System of Texas is improving the retirement security of Texas educators by prudently investing and managing trust assets and delivering benefits that make a positive difference in members' lives.



					2018-19 Base Funding	2020-21 Recommendations	Percent Change from Base	GR-Related Percentage of Rec. Total	2020-21 Agency Total Request
	Total Budget 100%	Budget, Ordered by Mission Centrality and Authority	Strategy	Agency Ranking	\$5,403,370,829	\$5,468,726,908	1%	91%	\$7,429,599,500
		<i>Support Services and Administration</i>	1.1.3 Administrative Operations	9	\$114,480,445	\$96,963,431	-15%	0%	\$125,443,179
	98%	Investment Management Division	1.1.3 Administrative Operations	5	\$90,586,590	\$115,988,077	28%	0%	\$124,388,076
	96%	Benefit Services	1.1.3 Administrative Operations	4	\$26,529,631	\$30,053,382	13%	0%	\$33,673,635
			1.2.1 Retiree Health - Statutory Funds						
	96%	Retiree Health Care Benefits (TRS-Care)	1.3.1 Retiree Health - Supplemental Funds	3	\$1,209,597,636	\$1,110,116,548	-8%	79%	\$1,245,761,673
	75%	Higher Education Retirement	1.1.2 TRS - Higher Education Retirement	2	\$417,952,238	\$368,477,887	-12%	98%	\$891,465,069
	69%	Public Education Retirement	1.1.1 TRS - Public Education Retirement	1	\$3,544,224,289	\$3,747,127,583	6%	100%	\$5,008,867,868

Note: Indirect administration program names are italicized, and not included in the Mission Centrality / Authority Matrix.

**Teacher Retirement System**  
**Summary of Funding Changes and Recommendations - House**

**Section 2**

<b>Funding Changes and Recommendations for the 2020-21 Biennium compared to the 2018-19 Base Spending Level (in millions)</b>	<b>General Revenue</b>	<b>GR-Dedicated</b>	<b>Federal Funds</b>	<b>Other Funds</b>	<b>All Funds</b>	<b>Strategy in Appendix A</b>	<b>Detail in SFR Appendix 5</b>
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<b><i>SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A and SFR Appendices, when applicable):</i></b>							
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A)	Decrease due to FY 2018 onetime TRS-Care funding, which consisted of net additional funding of \$182.6 million appropriated in the 85th Regular Session, and an additional \$212.0 million transferred from the Health and Human Services Commission in the 85th First Called Session.	(\$394.6)	\$0.0	\$0.0	\$0.0	(\$394.6)	A.3.1	5.c.
B)	Additional TRS-Care funding above statutorily required amounts to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium.	\$0.0	\$0.0	\$0.0	\$230.8	\$230.8	A.3.1	5.c.
C)	Projected increased cost of the 6.8% Public and Higher Education Retirement state contributions due to payroll growth.	\$189.4	(\$36.8)	\$0.0	\$0.0	\$152.6	A.1.1, A.1.2	5.a, 5.b.
D)	Projected increased cost of the 1.25% TRS-Care state contribution due to payroll growth.	\$64.4	\$0.0	\$0.0	\$0.0	\$64.4	A.2.1	5.c.
E)	Increase to reflect full biennial cost of an additional 94.0 FTEs hired during the 2018-19 biennium.	\$0.0	\$0.0	\$0.0	\$12.2	\$12.2	A.1.2, A.1.3	5.d, 5.e, 5.i.

<b>TOTAL SIGNIFICANT Funding Changes and Recommendations (in millions)</b>	<b>(\$140.8)</b>	<b>(\$36.8)</b>	<b>\$0.0</b>	<b>\$243.0</b>	<b>\$65.4</b>	As Listed	As Listed
<i>SIGNIFICANT Funding Increases</i>	\$253.8	\$0.0	\$0.0	\$243.0	\$460.0	As Listed	As Listed
<i>SIGNIFICANT Funding Decreases</i>	(\$394.6)	(\$36.8)	\$0.0	\$0.0	(\$394.6)	As Listed	As Listed

NOTE: Totals may not sum due to rounding.

Teacher Retirement System  
Selected Fiscal and Policy Issues - House

1. **Strategic Fiscal Review Overview.** The Teacher Retirement System (TRS) is under Strategic Fiscal Review (SFR) for the Eighty-sixth Legislative Session. Significant recommendations, observations, and considerations include the following:
- a) Recommendations total \$5.5 billion in All Funds in the 2020-21 biennium, including GR-Related statutory state contributions to retirement and TRS-Care programs, additional ESF funding for TRS-Care, and pension administrative costs paid from the Pension Trust Fund. Combined with \$25.1 million in budgeted administrative expenses for TRS-Care Administration, ActiveCare Administration, and 403(b) Certification not included in the General Appropriations Act (GAA), the agency's budget totals \$5.5 billion for the 2020-21 biennium. On an annual basis, this funding level represents approximately 19.1 percent of annual expenditures from all TRS trust funds, including benefits payments, refunds, and health care expenditures (based on FY 2018 expenditures).
  - b) TRS has broad constitutional and statutory authority over the management of its trust funds, which may conflict with the historical practice of appropriating Pension Trust Fund assets through the GAA. (See SFR Budget and Policy Option 8 below and Selected Fiscal and Policy Issue 7.)
  - c) In 2018, a TRS internal Vendor Procurement Audit had significant findings that the agency failed to follow Board procurement guidance throughout the contracting process. (See SFR Budget and Policy Option 7 below and Selected Fiscal and Policy Issue 9.)
  - d) TRS' only program with less than high mission centrality is the 403(b) program, a tax-deferred savings plan. TRS' role in offering 403(b) plans to public school employees is highly indirect and the agency does not regularly collect data on the program, such as participation levels or member fees. (See SFR Budget and Policy Options 5.a, 5.b, and 6 below.)

Figure 1 includes budget and policy options identified through the SFR process.

Figure 1 SFR Budget and Policy Options (Not Included in Recommendations)		
	Option	Description
1.	Increase TRS-Care affordability and access to care through telemedicine.	<p>Contract with a telemedicine provider to offer virtual visits with no patient copay using a fixed per member per month payment model. TRS estimates a biennial cost of \$368,000 in TRS-Care Trust Funds, based on FY 2018 utilization levels.</p> <p>Note: Option could result in cost savings for the TRS-Care Trust Fund. The Employees Retirement System (ERS) indicates that implementing a \$0 copay virtual visit benefit resulted in approximately \$1.0 million in annual cost savings for the HealthSelect plan. Funding impact to TRS-Care could vary due to differences in plan design, population, and utilization trends.</p>
2.	Reduce GR cost of the TRS-Care statutory contribution.	<p>Require employers to pay the Statutory Minimum and New Member contributions for TRS-Care (currently required for Public Education Retirement contributions only). TRS estimates option would reduce GR required to fund the TRS-Care statutory state contribution by \$159.0 million in the 2020-21 biennium and increase employer costs by a like amount.</p> <p>Option requires statutory amendment.</p>

3.	Compare TRS Board's active investment strategy to passive approach.	Add a new performance measure comparing the performance of TRS' current active management approach to returns achieved through passive index funds. Measure could show the difference between the annual TRS return on the market value of assets and the return of a major U.S. index, such as the S&P 500, over the same period.
4.	Increase ActiveCare high deductible plan affordability through HSA program.	Direct TRS to administer a Health Savings Account (HSA) program allowing ActiveCare 1-HD participants to save pre-tax earnings via payroll deduction to cover future out of pocket healthcare expenses.  LBB assumes biennial cost of \$20.0 to \$24.0 million for the 2020-21 biennium could be funded with member account fees. Option requires statutory amendment to establish the program.
5.a.	Provide data on 403(b) plan fees to members.	Direct TRS to collect and publish data on the actual asset-based fees charged to members for TRS-registered 403(b) products.
5.b.	Assess the current level of 403(b) participation.	Direct TRS to collect data on the level of 403(b) participation by public education members, such as the total number or amount of monthly payroll deductions to 403(b) accounts.
6.	Study the consolidation of 403(b) program to reduce member fees.	Study the feasibility of consolidating the current 403(b) vendor registration program into a single 403(b) supplemental retirement option similar to the TexaSaver program for state employees. Under a consolidated program, TRS would contract with a vendor to administer the program and charge member account fees sufficient to cover ongoing program costs. For example, the TexaSaver program charges account fees from \$0.00 to \$13.62 per month depending on the value of invested assets.  Through the study, TRS would assess legal requirements, plan design options, and any onetime transition costs borne by the state.
7.	Require TRS to follow state procurement policy to ensure best value for members.	Amend Texas Government Code §825.203(d) to make TRS subject to state procurement processes and requirements under Government Code Title 10, Subtitle D.
8.	Align GAA with TRS constitutional and statutory authority by removing trust fund appropriation.	Remove Strategy A.1.3, Administrative Operations, from the TRS bill pattern. This option may be combined with additional reporting requirements, such as Option 3, or removal of statutory exemptions, such as Option 7, to maintain Legislative oversight and control of administration expenditures.

2. **Payroll Growth Assumptions for Statutory State Retirement and TRS-Care Contributions.** Funding recommendations for estimated state retirement contributions total \$4.1 billion All Funds in 2020-21, a \$152.6 million increase from the 2018-19 base. This funding level provides a state contribution to Public and Higher Education retirement equal to 6.8 percent of payroll, the same rate as the 2018-19 biennium. Included in the 6.8 percent contribution are other funding sources from public and higher education employers, such as the Statutory Minimum Contribution, New Member Contribution, and Non-Educational and General Funds, which offset the amount of GR required to fund the state retirement contribution.

Funding recommendations for estimated, statutorily required state contributions to TRS-Care total \$879.4 million in General Revenue in 2020-21, a \$64.4 million increase from the 2018-19 base. This funding level provides a statutory state contribution to TRS-Care equal to 1.25 percent of salaries, the same rate as the 2018-19 biennium. Included in the 1.25 percent contribution are public education employer payments from federal and private grants, which offset the amount of GR required to fund the state TRS-Care contribution.

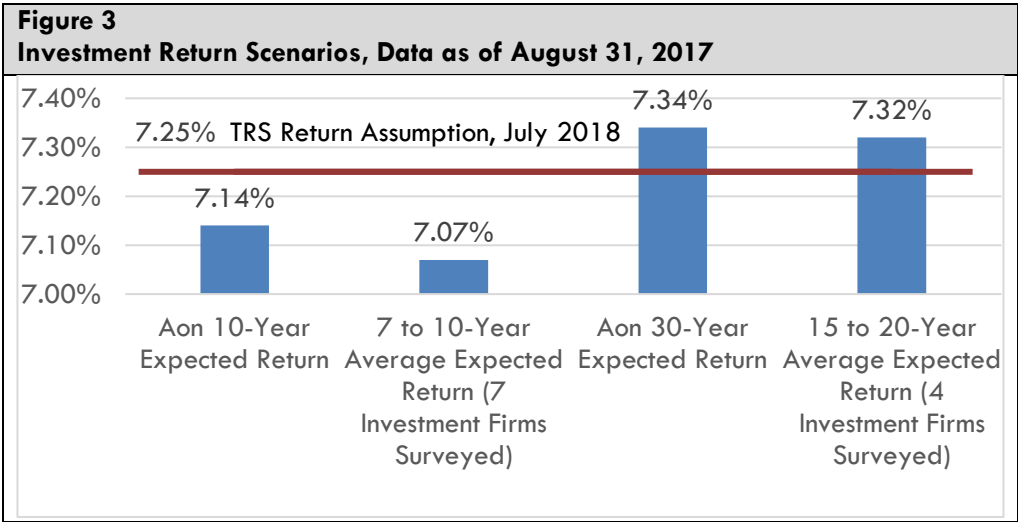
Estimated amounts assume 3.9 percent public education payroll growth across Public Education Retirement and TRS-Care Statutory Contribution strategies and 5.6 percent payroll growth in the Higher Education Retirement strategy. Recommendations are based on public and higher education payroll growth of 4.1 percent and 5.6 percent, respectively, since FY 2013. For public education, retirement recommendations assume 0.2 percent of this payroll growth will be covered by other methods of finance, such as the Statutory Minimum Contribution, which have increased rapidly since FY 2013.

Figure 2 2020-21 TRS State Contribution Rates		
	Public and Higher Education Retirement	TRS-Care
State	6.8%	1.25%
Active Employees	7.7%	0.65%
Public Education Employers*	1.5%	0.75%

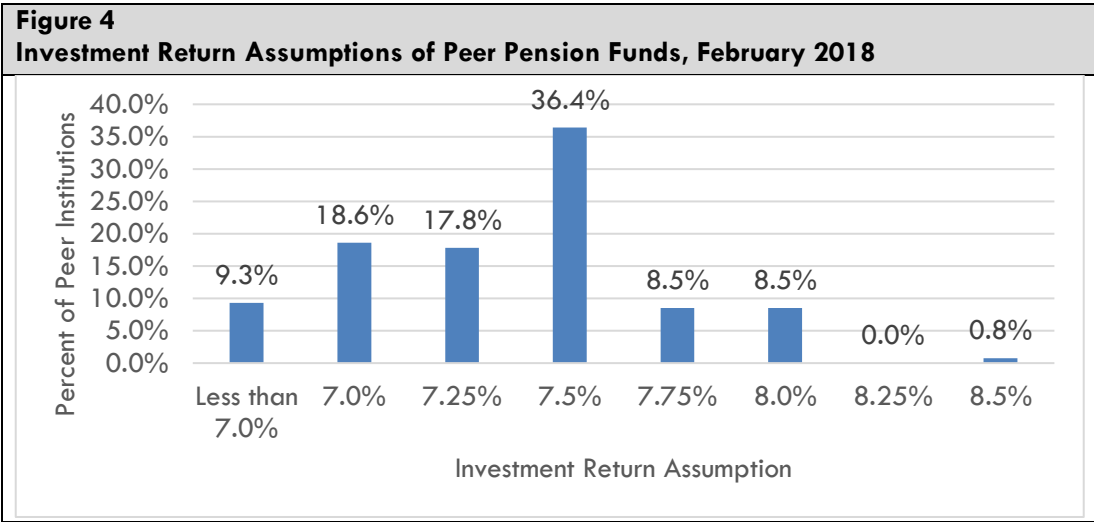
*Note: For Retirement, only public education employers that do not participate in Social Security are required to contribute 1.5 percent of payroll. For TRS-Care, all public education employers contribute 0.75 percent of eligible salaries.*

- Investment Rate of Return.** On July 27, 2018, the TRS Board reduced its investment return assumption from 8.0 percent to 7.25 percent based on data and recommendations from its consulting actuary, Gabriel Roeder Smith (GRS). In February 2018, the TRS Board received the results of the pension Actuarial Experience Study, conducted as of August 31, 2017. GRS reviewed long-range capital market projections from Aon, TRS' investment consultant, and other independent firms. Figure 3 shows these projected rates of return. Based on this analysis, GRS recommended reducing the inflation assumption from 2.5 percent to 2.3 percent and reducing the overall investment return assumption from 8.0 percent to no more than 7.25 percent.

GRS also presented the current investment return assumptions of peer institutions (large, U.S. state and local public pensions). As shown in Figure 4, 45.7 percent of the 129 surveyed funds have an investment return assumption of 7.25 percent or lower, the range recommended by GRS. Only 8.5 percent assume returns of 8.0 percent, the previous return assumption.



Source: Teacher Retirement System.



Source: National Association of State Retirement Administrators.

4. **Pension Trust Fund Actuarial Soundness.** Recommendations do not include changes to retirement contribution rates to address actuarial soundness. Options for Legislative consideration are listed below in Figure 5.

The agency's first exceptional item requests an aggregate 1.82 percentage point increase in state, employer, and/or employee contribution rates to reduce the funding period from the current 87 years to an actuarially sound 31 years. TRS estimates the total cost of this increase to be \$1.7 billion in the 2020-21 biennium.

TRS' previous Actuarial Valuation as of August 31, 2017 indicated an Unfunded Actuarially Accrued Liability (UAAL) of \$35.5 billion and a funding period of 32.2 years for the Pension Trust Fund. Due to the TRS Board's subsequent decision to lower the investment return assumption to 7.25 percent, the most recent Actuarial Valuation as of August 31, 2018 reflected a UAAL of \$46.2 billion, a \$10.7 billion increase, and a funding period of 87 years.

<b>Figure 5 Options to Achieve Actuarially Sound Contribution, TRS Retirement 2020-21 Biennial Cost, in Millions</b>					
	<b>Option</b>	<b>Employee Cost</b>	<b>Employer Cost</b>	<b>GR/GR-D State Cost</b>	<b>2020-21 Total Cost</b>
1.	Increase state contribution rate from 6.8% to 8.56%.	\$0.0	\$304.4	\$1,408.6	\$1,713.0
2.a.	Increase each contribution rate <u>equally</u> : <sup>1</sup> - Increase employee contribution rate from 7.7% to 8.37% - Increase public education employer contribution from 1.5% to 2.18% - Increase state contribution from 6.8% to 7.48%	\$658.0	\$517.1	\$541.9	\$1,717.0
2.b.	Increase each contribution rate <u>proportionally</u> : <sup>2</sup> - Increase employee contribution rate from 7.7% to 8.61% - Increase public education employer contribution from 1.5% to 1.68% - Increase state contribution from 6.8% to 7.6%	\$856.0	\$236.4	\$617.6	\$1,710.0
3.	Phase in contribution increase over two biennia: - Increase state contribution rate from 6.8% to 8.56% gradually over four years. <sup>3</sup>	\$0.0	\$125.9	\$583.1	\$709.0

Notes: 1. Option 2.a. assumes 0.7 percentage point increase to the state, employer, and employee contributions. As only public education employers that do not participate in Social Security pay the employer contribution, raising this contribution by 0.7 percentage points generates additional revenue equal to 0.42 percent of the total public and higher education covered payroll.

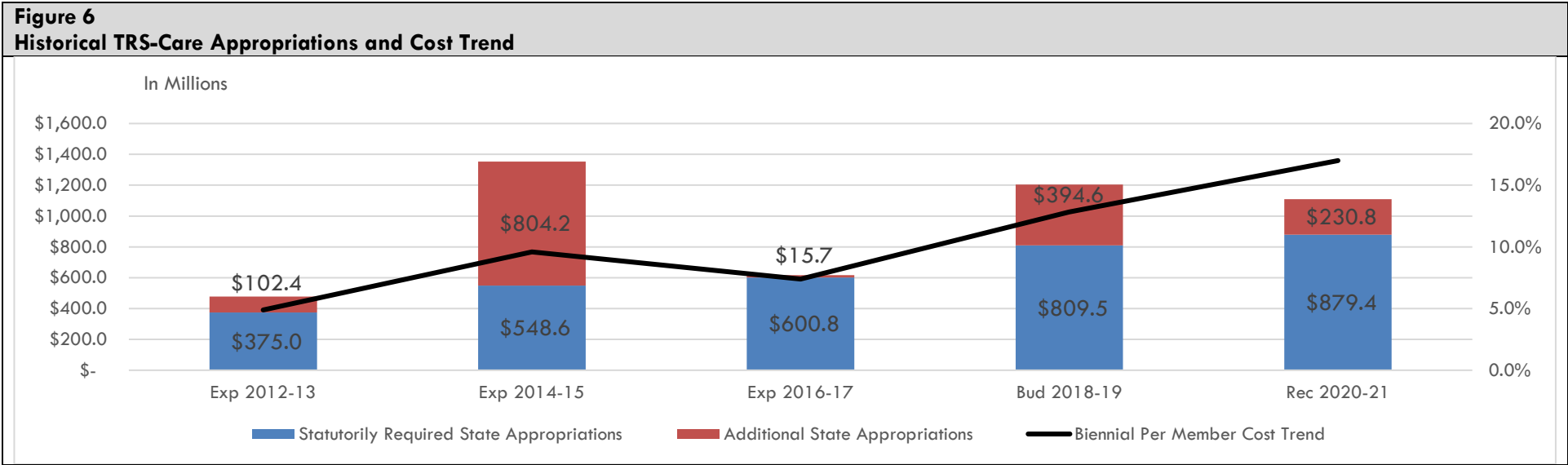
2. Option 2.b. assumes the 1.82 percentage point increase is divided in proportion to each group's current share of the total combined contributions from employees, employers, and the state.

3. Option 3. assumes 0.5 percentage point increase in fiscal years 2020-22 and a 0.32 percentage point increase in fiscal year 2023. This option would achieve a funding period of 30 years in FY 2020 assuming future contribution rate increases are statutorily required. Only 2020-21 biennial costs are shown in the table.

4. Figure reflects TRS estimates of the total cost of each state, employer, and employee contribution rate increase and LBB estimates of the GR-Related cost of each state contribution rate increase.

5. **TRS-Care Funding, Cost Growth, and Affordability.** Recommendations include \$230.8 million in Economic Stabilization Funds for TRS-Care above amounts estimated to be statutorily required to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium. Additional funding will cover program cost growth, which continues to outpace the growth of payroll-based statutory contributions.

Historical statutory and additional appropriations to TRS-Care and biennial per member cost trends are shown in Figure 6.



Notes: 1. Cost trend includes combined per member per biennium medical and pharmacy costs.  
2. Additional state appropriations include sum-certain additional funding and funding provided through Rider 14, Settle-up Dollars Directed to TRS-Care.  
Source: Teacher Retirement System.

To prevent program insolvency, the Eighty-fifth Legislature enacted significant reforms to TRS-Care through H.B. 3976 (Regular Session), appropriated a net \$182.6 million in onetime additional GR funding during the Eighty-fifth Regular Session, and transferred an additional \$212.0 million from the Health and Human Services Commission to TRS-Care in the Eighty-fifth First Called Session. The Legislature also provided additional ongoing funding by raising TRS-Care employer and state contribution rates, as shown in Figure 7.

Figure 7 TRS-Care Contribution Rates, 2016-17 and 2018-19 Biennia		
	2016-17	2018-19
Active Employee	0.65%	0.65%
Employer	0.55%	0.75%
State	1.0%	1.25%

H.B. 3976 restructured TRS-Care to provide two primary plans instead of the previous five, including eliminating the zero premium plan. Under the new structure, non-Medicare eligible members are enrolled in the Standard Plan, a high deductible health plan, and Medicare-eligible members are enrolled in a Medicare Advantage plan. To implement the bill, TRS

raised premiums by an average of 47% per retiree for plan year 2018 and significantly increased out of pocket costs for some members, including members with enrolled spouses and dependents. As a result of plan changes, membership in TRS-Care decreased by 30,614 participants or 11.4 percent in FY 2018. Most members leaving the plan were eligible for Medicare.

6. **TRS Enterprise Application Modernization (TEAM) Project.** Recommendations do not include additional funding for TEAM in the 2020-21 biennium, which TRS expects to complete the final phase of in October 2019. TEAM replaces all major legacy data systems for pension administration, including member records, employer reporting, and financial systems. When TEAM began in FY 2012 it was projected to take five and a half years and cost \$94.6 million. Current estimates project the final budget to reach \$128.0 million and a timeline of almost eight years. Increases in cost and time were due to early changes in project scope and budget estimates, additional design changes due to new legislative requirements, and delays to address problems with Phase 1 implementation related to the new employer payroll reporting system.

Project delays and Phase I implementation issues resulted in customer service issues including delays processing member refunds and increases in call center handle times.

7. **TRS Fiduciary Authority and GAA Oversight.** Recommendations maintain funding and FTE cap authority for 94.0 FTEs added by a fiduciary finding of the TRS Board in FY 2019. Recommendations do not include agency requests of \$10.5 million in Pension Trust Funds for 30.0 FTEs related to investment management, \$16.0 million in Pension Trust Funds for 97.0 additional FTEs for benefits services and administrative support, or a new rider granting the TRS Board authority to increase FTE levels during the biennium. Additionally, recommendations do not include \$8.0 million in Pension Trust Funds requested for building renovation.

Article 16, Section 67 of the Texas Constitution directs the Legislature to establish the Teacher Retirement System for public and higher education employees and establishes that the TRS board must administer the system and prudently invest assets. Texas Government Code §825.101 further grants TRS exclusive control over all assets held in trust by the retirement system and all operations funded by trust assets, including TRS administrative operations, which are paid completely by trust funds. This control includes exemptions from capital budget requirements for projects funded with trust funds. Additionally, citations shown in Figure 8 specify TRS authority and exemptions from other state policies.

Despite this broad statutory authority, since FY 2000 the Legislature has appropriated TRS Pension Trust Fund 960 in TRS’ bill pattern to manage the TRS pension administrative operations budget, including pension and administrative FTE levels, executive and other staff salaries, and capital projects. This practice contrasts with the bill pattern of a similar agency, the Employees Retirement System (ERS), which does not include an appropriation of pension trust funds. For the 2020-21 biennium, TRS has requested that this trust fund appropriation be removed from its bill pattern.

Figure 8 TRS Statutory Authority and Exemptions		
Category	Citation	Description
General Authority	Government Code §825.101	Exclusive control over all assets held in trust by the retirement system and all operations funded by trust assets.
	Government Code §825.313	Board authority to transfer from the interest account to the expense account any funds necessary to perform the board’s fiduciary duties.
Staff Compensation	Government Code §825.208	Exclusive authority over setting the rate of compensation of employees paid with trust funds.
Contracting and Procurement	Government Code §2155.089	Exemption from general purchasing requirements (except for benefits plan contracts).



	Government Code §2254.102	Exemption from oversight of legal contingent fee contracts.
	Government Code §2261.251	Exemption from ethics, reporting, and approval of contracts requirements (except for benefits plan contracts).
	Government Code §825.103(d)	Exclusive authority over purchase of goods and services paid for with trust funds.
	Government Code §825.103(e)	Exclusive authority over information technology (Government Code, Chapters 2054 & 2055).
	Government Code §825.103(g)	Exemption from contract management standards and oversight (Government Code, Chapters 2261 & 2262).
<i>Other Exemptions</i>	Government Code §825.103(c)	Exemption from participating in workers' compensation (Labor Code, Chapter 412).
	Government Code §825.103(f)	Exemption from laws governing the resolution of contract claims against the state (Government Code, Chapter 2260).

On July 27, 2018, the TRS Board adopted a fiduciary finding pursuant to Texas Government Code §825.313 increasing its FY 2019 operating budget by an additional \$11.3 million above the amount appropriated in the GAA for the TEAM project and other administrative expenses. This included funding for an additional 94.0 FTEs above the agency's FTEs limitation. TRS requests to increase its FTE limit by an additional 127.0 FTEs in the 2020-21 biennium, including 30.0 FTEs related to investment management and 97.0 related to benefits services and administrative support. TRS also requests a new rider granting the agency explicit authority to increase FTE levels during the biennium through a fiduciary finding of the Board, with reporting requirements to the Governor and LBB.

Additionally, TRS requests \$8.0 million in Pension Trust Funds in the 2020-21 biennium for the renovation of its headquarters.

8. **Incentive Compensation.** Recommendations for the 2020-21 biennium maintain current Rider 13 language allowing TRS to grant performance incentive compensation to Investment Management Division (IMD) staff. Recommendations do not include the agency's request to amend rider language to allow performance payments to all TRS staff. TRS states that the request would amend Rider 13 to include incentive compensation currently provided to the Executive Director through other Board authority. The agency further states that it does not intend to expand performance compensation to any new divisions beyond IMD.

Rider 13 allows TRS to pay performance incentive compensation to IMD staff based on standards adopted by the Board. Under current Board policy, IMD staff earn incentive compensation for meeting investment benchmarks (50%), performance of peer groups (30%), and qualitative skills such as candor, curiosity, accountability, teamwork, leadership, and constructive work environment (20%). Qualitative benchmarks only apply if the employee has met the required threshold for the investment performance component. The maximum potential award may not exceed a percentage of the base salary determined by the Board, which currently varies by position from 5.0 percent to 175.0 percent. In 2017, TRS paid \$9.1 million in incentive compensation to 134 IMD staff.

9. **Vendor Procurement Audit.** In June 2018, TRS published an internal audit of its vendor procurement policies with significant findings. To further address the audit findings, the Legislature may consider amending Texas Government Code §825.203(d) to make TRS subject to state procurement policy under Government Code Title 10, Subtitle D.

TRS reviewed procurements for the Health and Insurance Benefits Division and Investment Management Division and found that Board-issued procurement guidance is not consistently followed throughout the contracting process. For example, TRS failed to document how vendors were evaluated, how many bids the agency had received, and justifications for non-competitively bid contracts with no term limits or not-to-exceed amounts. The audit also found that departments failed to include TRS' Procurements and Contracts (P&C) department in their procurement processes because they believed that doing so would take too long.

Additionally, the audit found 15 contract workers had access to protected health information, but their employers did not have Business Associate Agreements (BAAs) with TRS. This is a violation of the federal Health Insurance Portability and Accountability Act (HIPAA). All major health care contracts were in compliance with BAA requirements.

The report makes the following recommendations to address audit findings:

- 1) P&C should coordinate with business units to develop procurement plans, timelines, and detailed procedures.
- 2) P&C should implement a formal process to evaluate whether or not a contract requires a BAA.

TRS indicates it has taken preliminary steps to implement the first recommendation, including developing a new exemption justification policy with additional oversight from the P&C director and increasing communication between P&C and other divisions through quarterly meetings and the TRS intranet page. Additionally, TRS plans to develop a procurement training program by March 2019 and additional reference guides and user manuals by September 2019.

To address the HIPAA violation, TRS has implemented the additional required BAAs and developed a questionnaire to ensure all current TRS contracts have a BAA, if required. For future contracts, TRS has developed a risk assessment questionnaire to determine if a BAA is required prior to the procurement. The agency also plans create additional guidance and procedures for implementing a BAA by September 2019.

10. **Update on ActiveCare Affordability.** ActiveCare is a health care benefits program for certain public school district employees enacted by the Seventy-seventh Legislature in 2001. Smaller districts with fewer than 500 employees (as of 2001) are required to participate in ActiveCare, while larger districts may voluntarily join. To prevent adverse selection, member districts are statutorily prohibited from leaving the program. There are approximately 439,690 participants in TRS-ActiveCare as of April 2018, representing approximately 43.0 percent of public education employees.

State law requires a minimum contribution by the state of \$75 per employee per month, which is distributed through the Foundation School Program. Districts are required to contribute a minimum of \$150 per employee per month toward the premiums of participating members. Minimum state and employer contributions have not changed since the program began. According to TRS, about two-thirds of districts contribute more than the minimum; however, a majority of districts contribute a total of \$200 or less.

Significant cost growth in the program without additional state subsidy has reduced the affordability of ActiveCare plans. According to TRS, rising prescription drug costs, including specialty drugs, and other medical cost increases contribute significantly to plan costs. To balance costs and revenues, TRS has significantly raised premiums and made benefit design changes since the program began. For example, previous plan option TRS-ActiveCare 3, which offered comparable benefits to the plan offered to State of Texas employees, was closed to new enrollees in FY 2014 and eliminated in FY 2015. In FY 2017 and FY 2018 the Board approved increases in premiums and plan design changes, and in FY 2019 the Board eliminated TRS-ActiveCare 2, the richest benefit package plan, as an option for new enrollees. For FY 2019, remaining statewide plan options include ActiveCare 1-HD, a high deductible health plan, and ActiveCare Select, an exclusive provider organization with no out of network coverage.

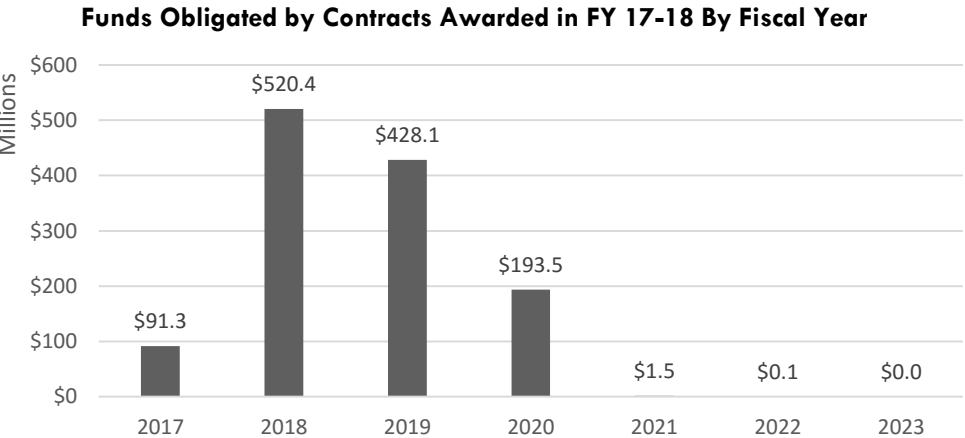
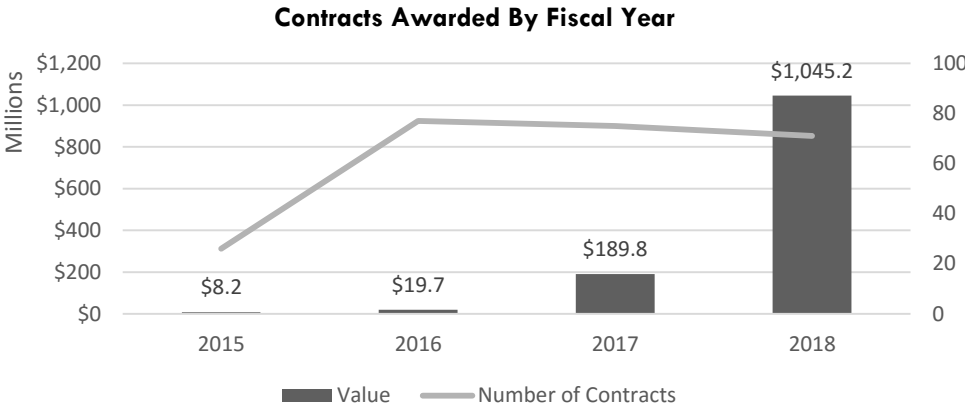
Teacher Retirement System  
Contracting Highlights

As of 8/31/2018, the Teacher Retirement System had 151 active procurement contracts valued at \$1.3 billion and no revenue generating contracts.

Summary of Contracts Awarded in Fiscal Years 2017-2018 and Reported to LBB Contracts Database<sup>1</sup>

(Dollar values rounded to the nearest tenth of a million)

	Number	Total Value	Average Value	% of total
Procurement Contracts	146	\$ 1,235	\$ 8.5	100%
Award Method				
Total Competitive Contracts	46	\$ 1,206	\$ 26.2	97.7%
Total Non-Competitive	100	\$ 28.5	\$ 0.3	2.3%
Sole Source	96	\$ 24.2	\$ 0.3	2.0%
Interagency Agreement	4	\$ 4.3	\$ 1.1	0.3%
Procurement Category				
Other Services	76	\$ 1,216	\$ 16.0	98.5%
Information Technology	57	\$ 11.4	\$ 0.2	0.9%
Construction	2	\$ 3.8	\$ 1.9	0.3%
Goods	5	\$ 1.9	\$ 0.4	0.2%
Lease/Rental	3	\$ 1.3	\$ 0.4	0.1%
Consulting	2	\$ 0.4	\$ 0.2	0.0%
Professional Services	1	\$ 0.0	\$ 0.0	0.0%
Revenue Generating Contracts	0	\$ -	\$ -	



<sup>1</sup>These figures reflect the total value of reported contracts awarded in FY 17-18 and reported to the LBB contracts database. Values can include planned expenditures for subsequent years and represent the amounts contracted which may include funds from non-appropriated trust funds.

**Teacher Retirement System**  
Contracting Highlights

(Dollar values rounded to the nearest tenth of a million)

<b>Largest Active Contracts from Previous Fiscal Years</b>	<b>Award Method</b>	<b>Total Value</b>	<b>% Change*</b>	<b>Award Date</b>	<b>Length</b>	<b>Renewals</b>	<b>Vendor</b>
1 Health Maintenance Organization Services (HMO)	Competitive	\$ 90.7	50.0%	08/13/14	6 years	0	Health Care Services Corp.
2 Office Lease	Sole Source	\$ 22.0	0.0%	04/01/09	12 years	0	Cousins 816 Congress LLC
3 Project Management	Sole Source	\$ 8.5	0.0%	11/16/11	7 years	0	Provaliant Holdings LLC
4 Commercial Remodel and Renovation Services	Competitive	\$ 1.7	750.0%	10/09/15	4 years	4	Cobos Design & Construction
5 Independent Program Assessment	Competitive	\$ 1.6	26.3%	01/03/13	5 years	1	Bridgepoint Consulting LLC

**Largest Competitive Contracts Awarded in FY 17-18**

1 Enrollment Prescription Drug Plans	Competitive	\$ 575.0	0.0%	01/01/18	2 years	0	Silverscript Insurance Co.
2 CARE Pharmacy Benefit Services	Competitive	\$ 390.0	0.0%	09/01/17	2 years	0	Caremark
3 Medicare Advantage Services	Competitive	\$ 94.8	0.0%	01/01/17	6 years	0	Humana Insurance Company
4 Health Plan Administrative Services	Competitive	\$ 75.0	0.0%	09/01/16	2 years	0	Aetna Life Insurance Company
5 ActiveCare Pharmacy Benefit Services	Competitive	\$ 60.0	0.0%	09/01/17	2 years	0	Caremark

**Largest Non-Competitive Contracts Awarded in FY 17-18**

1 Construction Services	Interagency	\$ 3.2	0.0%	06/16/17	4 years	1	Texas Facilities Commission
2 Overflow Call Center Services	Sole Source	\$ 2.8	68.8%	03/06/17	2 years	1	Advanced Callcenter Tech.
3 SSDC Medicare Enrollment	Sole Source	\$ 2.2	9.5%	09/01/17	2 years	1	SSDC Services Corp.
4 Agency wide Furniture	Sole Source	\$ 1.5	0.0%	08/27/18	2 years	1	Rockford Business Interiors
5 CoLocation & Workplace Services	Sole Source	\$ 1.1	2.8%	01/30/18	3 years	1	Presidio Net. Solutions

\*Note: The percent change is the difference in contract value between the initial award amount and the current contract value. This calculation includes contract amendments and renewals.

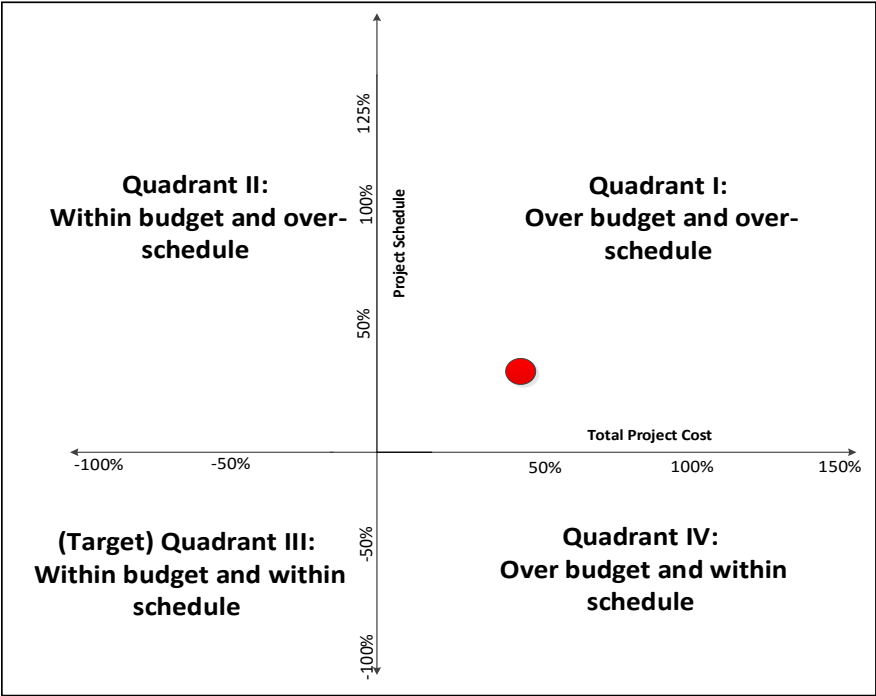
Teacher Retirement System  
Quality Assurance Team Highlights

TRS has one major information resource project monitored by the Quality Assurance Team. The project is behind schedule and over budget. Details on this project are listed below.

Summary of Total Costs (in millions) and Time Frames reported to the Quality Assurance Team\*

Project Name	Original Projected Costs	Current Projected Costs	Under / (Over) Initial Project Cost	Expenditures to Date	Original Timeline in Months	Current Timeline in Months	Months Ahead / (Behind) Schedule	% Complete
<sup>1</sup> TRS Enterprise Application Modernization (TEAM)	\$94.6	\$128.0	(\$33.4)	\$124.0	66	95	(29)	84%
Project Totals	\$94.6	\$128.0	(\$33.4)	\$116.0				

Major Information Resources Projects



- Legend
- Project which exceeds budget OR schedule
  - Project which is over budget and behind schedule

\*Note: These figures reflect all project costs (Capital and Informational) and timelines from self-reported monitoring reports that are sent to the Quality Assurance Team (QAT) for review. QAT includes representatives from the Comptroller of Public Accounts, Department of Information Resources, Legislative Budget Board and the State Auditor's Office (Advisory Only).

Significant Project Highlights

1 TRS Enterprise Application Modernization (TEAM)

This project began in fiscal year 2012 for a duration of 66 months with initial estimated project costs of \$94.6 million.

The overall goal of the Teacher Retirement System (TRS) Enterprise Application Modernization (TEAM) Program is to implement a cost effective, efficient, and sustainable program to enable TRS to serve the expanding needs of its members, employers, and annuitants.

When the project was initiated, milestones quickly began to slip because the agency did not provide enough time in the initial Request For Offer (RFO) for the Line of Business (LOB) Solution. In August 2012, the agency submitted their Project Plan to the QAT which identified an increase of costs of more than 10 percent. This increase required the agency to re-submit their project tool set to the QAT. In September 2012, QAT reviewed their new baseline documents and noted that many cost estimates for system modules were low. This delayed the estimated completion date to August 2018 with project costs increased to \$114.9 million.

In June 2016, the agency increased the estimated project costs to \$122.5 million due to project changes resulting from legislative actions. In November 2016, the finish date for the project was further extended to August 2019. The agency identified additional critical functionality that was needed before Phase 1 could be completed. Some of this functionality is a result of missed requirements by the vendor, while others are a result of the agency increasing reporting requirements and system changes.

In May 2018, the agency increased project costs to \$128.0 million due to Phase 1 Stabilization, including correction of coding defects, installation of a new operating system and the addition of system testing. This also extended the schedule to October 2019. Thus far, the project is over budget by 33 percent and is over schedule by 46 percent.

To help complete Phase 1, TRS is utilizing approximately 70 TRS staff as subject matter experts for acceptance testing purposes. Phase 2 is now being initiated for the Pension services area of the project. The customer service impact of project delays and Phase I implementation issues have included delays processing member refunds and increases in call center handle times.

QAT Budget Highlights (in millions)

Project Name	2018-19 Base	2020-21 Requested	2020-21 Recommended
TEAM	\$29.7	\$0.0	\$0.0
Total	\$29.7	\$0.0	\$0.0

\* Note: Requested amounts for 2020-21 include all baseline and exceptional item funding requested by the agency.

**Teacher Retirement System  
Rider Highlights - House**

**Modification of Existing Riders**

14. **Settle-Up Dollars to TRS-Care.** Recommendations revise rider to clarify legislative intent that only net settle-up payments from both Public Education and Higher Education Retirement state contribution payments are reappropriated to TRS-Care.

**New Riders**

19. **Additional Funding for TRS-Care.** Recommendations add rider directing the expenditure of \$230.8 million in Economic Stabilization Funds for TRS-Care to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium.

**Deleted Riders**

15. **Enterprise Application Modernization FTE Exemption.** Recommendations delete rider due to the end of the TEAM project. Staff previously exempt from the FTE limitation under this rider are subject to the limitation for the 2020-21 biennium.
19. **Contingency for House Bill 3976 – Appropriation to TRS-Care.** Recommendations delete rider, which appropriates additional statutory (\$167.4 million) and supplemental (\$208.8 million) GR funding to TRS-Care, contingent upon the passage of TRS-Care reform legislation. Rider is no longer necessary, as recommendations maintain the additional statutory contributions in the agency's MOF table and do not include supplemental funding for the 2020-21 biennium.
20. **TRS-Care Health Care Cost Containment Initiatives.** Recommendations delete rider, which reduced supplemental appropriations to TRS-Care under Rider 19 by \$26.2 million for cost containment measures. Rider is no longer necessary, as recommendations do not include any supplemental TRS-Care funding.

**Teacher Retirement System**  
**Items Not Included in Recommendations - House**

**Section 5**

	2020-21 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2022-23
	GR & GR-D	All Funds	FTEs			

**Agency Exceptional Items Not Included (in agency priority order)**

1)	Retirement Contribution Rate Increase- Funding to provide a 1.82 percent contribution rate increase in the 2020-21 biennium to make the Pension Trust Fund actuarially sound. (Note: \$1.1 billion request reflects TRS' estimate of the GR cost of the requested state contribution rate increase. See Section 3, Selected Fiscal and Policy Issue 4, for LBB analysis.)	\$1,088,967,411	\$1,088,967,411	0.0	No	No	\$0
2)	Investment Management Staff- \$10.5 million in Pension Trust Funds for 30.0 additional FTEs related to investment management.	\$0	\$10,500,000	30.0	No	No	\$0
3)	Customer Service and Administrative Support Staff and Building Renovation- \$16.0 million in Pension Trust Funds for 97.0 additional FTEs related to benefits services and administrative support and \$8.0 million in Pension Trust Funds for building renovation.	\$0	\$24,000,000	97.0	No	Yes	\$0
4)	<b>Rider Request:</b> New Rider, Augmenting Customer Service Delivery and Investment Trust Performance. TRS requests a new rider authorizing the agency to increase its FTE count above the GAA limitation by fiduciary finding of the TRS Board. Rider would require TRS to provide justification for FTEs and annual progress reports to LBB and the Governor.	\$0	\$0	0.0	No	No	\$0
5)	<b>Rider Request:</b> New Rider, Appropriation: Unexpended Balances of TEAM Program FY 2018/2019 and CAPPS - Enterprise Resource Planning (ERP). Agency requests new rider granting UB authority of Pension Trust Funds remaining as of August 31, 2018 for capital budget projects funded in the 2018-19 GAA.	\$0	\$0	0.0	No	No	\$0

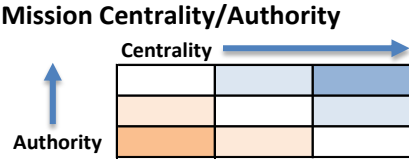
<b>TOTAL Items Not Included in Recommendations</b>	<b>\$1,088,967,411</b>	<b>\$1,123,467,411</b>	<b>127.0</b>	<b>\$0</b>
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**Teacher Retirement System  
Strategic Fiscal Review Appendices - House**

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Teacher Retirement System  
Strategic Fiscal Review Appendix 1 Program Listing -- Services and Administration - House  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)



Agency Submission		LBB Staff Review and Analysis								
Agency Ranking	Program Name	Year Implemented	State Authority	Federal Authority	Authority	Mission Centrality	State Service	Service Area	Significant Audit and/or Report Findings	Contracts for Outsourced Services
1	Public Education Retirement	1936	Constitution, Statute	No Federal Requirement	Strong	Strong	Employee Benefits Services	Statewide	No	N/A
2	Higher Education Retirement	1936	Constitution, Statute	No Federal Requirement	Strong	Strong	Employee Benefits Services	Statewide	No	N/A
3	Retiree Health Care Benefits (TRS-Care)	1986	Statute	No Federal Requirement	Strong	Strong	Employee Benefits Services	Statewide	No	N/A
4	Benefit Services	1936	Admin Code, Constitution, Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	No	Partial
5	Investment Management Division	1936	Constitution, Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	No	Partial
6	TRS Care Administration	1986	Admin Code, Statute	No Federal Requirement	Strong	Strong		Statewide	No	Partial
7	ActiveCare Administration	2002	Admin Code, Statute	No Federal Requirement	Strong	Strong		Statewide	No	Partial
8	403(b)	2002	Admin Code, Statute	No Federal Requirement	Strong	Moderate		Statewide	No	No
Indirect Administration Programs										
9	Support Services and Administration	1936	Admin Code, Statute	No Federal Requirement	N/A	N/A	State Government Administration & Support	Statewide	Yes	No

**Note:** *Significant Audit and/or Report Findings.* Qualified indicates that there may be issues relating to agency operations that have not been documented in formal audits, reviews or reports, or LBB Staff cannot verify whether recommendations have been implemented.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 2: Program Listing -- Fiscal - House**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

Agency Submission				LBB Staff Review and Analysis							
Agency Ranking	Program Name	2014-15 Expended	2016-17 Expended	2018-19 Est / Budg	2019 FTEs Budg	2020-21 Recommended	2021 FTEs Rec.	Percent Change from Base	FTEs Change from Base	Revenue Supported?	Appropriate Use of Constitutional and GR-Dedicated Funds?
1	Public Education Retirement*	\$ 3,038,386,452	\$ 3,272,918,409	\$ 3,544,224,289	0.0	\$ 3,747,127,583	0.0	5.7%	0.0	Yes	N/A
2	Higher Education Retirement*	\$ 369,488,552	\$ 412,826,664	\$ 417,952,238	0.0	\$ 368,477,887	0.0	-11.8%	0.0	Yes	N/A
3	Retiree Health Care Benefits (TRS-Care)*	\$ 1,352,755,169	\$ 616,483,063	\$ 1,209,597,636	0.0	\$ 1,110,116,548	0.0	-8.2%	0.0	Yes	N/A
4	Benefit Services	\$ 19,765,789	\$ 20,458,183	\$ 26,529,631	175.5	\$ 30,053,382	204.5	13.3%	29.0	No	Compliant
5	Investment Management Division	\$ 60,248,765	\$ 73,188,222	\$ 90,586,590	167.0	\$ 115,988,077	168.0	28.0%	1.0	No	Compliant
6	TRS Care Administration *	\$ 7,642,080	\$ 11,132,982	\$ 18,265,255	54.5	\$ 15,389,235	64.5	-15.7%	10.0	No	Compliant
7	ActiveCare Administration *	\$ 4,994,658	\$ 6,181,031	\$ 8,153,492	27.0	\$ 9,283,597	32.0	13.9%	5.0	Yes	Compliant
8	403(b) *	\$ 144,055	\$ 235,241	\$ 525,991	1.0	\$ 435,944	1.0	-17.1%	0.0	Yes	Compliant
<b>Indirect Administration Programs</b>											
9	Support Services and Administration	\$ 98,397,944	\$ 103,629,327	\$ 114,480,445	231.8	\$ 96,963,431	245.8	-15.3%	14.0	No	Compliant
<b>Total</b>		<b>\$ 4,951,823,464</b>	<b>\$ 4,517,053,122</b>	<b>\$ 5,430,315,567</b>	<b>656.8</b>	<b>\$ 5,493,835,684</b>	<b>715.8</b>	<b>1.2%</b>	<b>59.0</b>		

	2018-19 Est/Budg	2020-21 Recommended
Appropriated Funds	\$ 5,403,370,829	\$ 5,468,726,908
Non-Appropriated Funds	\$ 26,944,738	\$ 25,108,776
<b>Total</b>	<b>\$ 5,430,315,567</b>	<b>\$ 5,493,835,684</b>

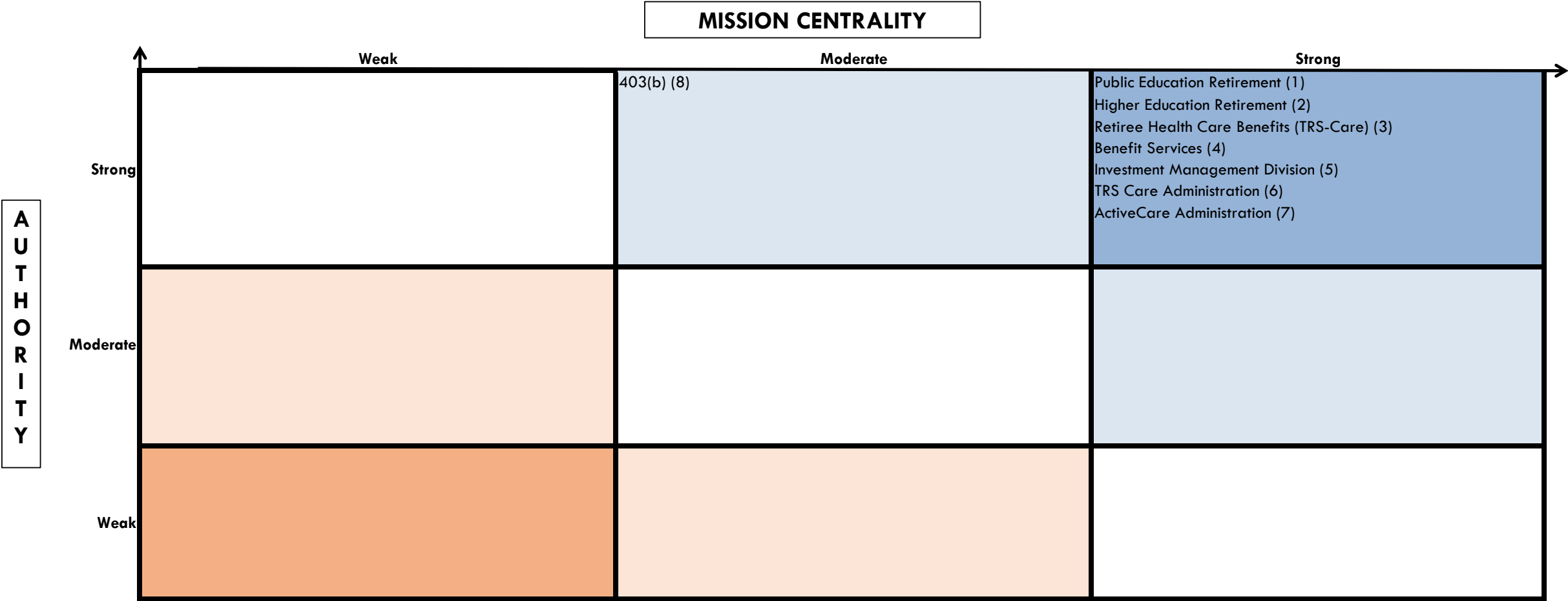
\* Program has Non-Appropriated Funds

**Notes:** Significant funding changes from 2018-19 to 2020-21 for Investment Management Division, Benefits Services, and Support Services and Administration include funding decreases related to the completion of the TEAM project and increases to reflect the full biennial cost of additional FTEs hired in the 2018-19 biennium. Changes to TRS Care Administration, ActiveCare Administration, and 403(b) reflect TRS management of programs based on demand for services and available revenues for each program.

**Revenue Supported** includes fees, tuition set asides and donations.

Teacher Retirement System  
Strategic Fiscal Review Appendix 3: Assessment of Mission Centrality and Authority - House  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

**Mission centrality** is a judgment of how directly connected a program is to the core mission and goals of the agency, as identified in statute, agency strategic plans, or other documents.  
**Authority** is an assessment of how strong and explicit the legal basis is for the existence of the program and the way in which the agency is administering it.



Notes: Agency program rankings included after the program name. The matrix does not include Indirect Administration programs.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 4: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury - House**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

1	<b>Account No:</b> 960	<b>Account Type:</b> OTHER FUNDS (Outside the Treasury - Appropriated)
	<b>Account Name:</b> TRS Trust Account	
	<b>Legal Cite(s):</b> Article 16, Section 67, Texas Government Code, Chapter 825	
	<b>Authorized Use:</b> To record receipt of all money made to Teacher Retirement System from whatever source derived and to record payments made for administrative expenses and for benefit granted under the Teacher Retirement System.	
	<b>Revenue Source:</b> Investment earnings; member, employer and state contributions.	

<b>Ranking:</b>	<b>Program Name</b>	<b>2018-19 Est/Budg</b>	<b>2020-21 Recommended</b>	<b>In Compliance with Authorized Use?</b>
4	Benefit Services	\$ 26,529,631	\$ 30,053,382	Yes
5	Investment Management Division	\$ 90,586,590	\$ 115,988,077	Yes
9	Support Services and Administration	\$ 114,480,445	\$ 96,963,431	Yes
<b>Total</b>		<b>\$ 231,596,666</b>	<b>\$ 243,004,890</b>	

<b>Notes/Comments:</b>	Amounts included are Pension Trust Fund administrative expenses. General Revenue and General Revenue-Dedicated appropriations for the state contribution to TRS Public Education Retirement and Higher Education Retirement are revenue sources of the fund and not included above.
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2	<b>Account No:</b> 989	<b>Account Type:</b> Outside the Treasury - Not Appropriated
	<b>Account Name:</b> Retired School Employees Group Insurance Trust Fund	
	<b>Legal Cite(s):</b> Title 34, Part 3, Chapter 41, Subchapter A, Texas Insurance Code, Section 1575.301	

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 4: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury - House**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

<b>Authorized Use:</b>	To record receipt of all revenue related to TRS Care program from whatever source derived and to record payments made for administrative expenses and for benefits granted by statute.
<b>Revenue Source:</b>	Member, employer, and state contributions; premiums; other appropriations for the implementation of the program; and investment income.

<b>Ranking:</b>	<b>Program Name</b>	<b>2018-19 Est/Budg</b>	<b>2020-21 Recommended</b>	<b>In Compliance with Authorized Use?</b>
<b>6</b>	TRS Care Administration	\$ 18,265,255	\$ 15,389,235	Yes
<b>Total</b>		<b>\$ 18,265,255</b>	<b>\$ 15,389,235</b>	

<b>Notes/Comments:</b>	Amounts shown are TRS-Care administrative expenses. General Revenue appropriations for the state contribution to TRS-Care are a revenue source of the fund and not included above.
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3	<b>Account No:</b>	855	<b>Account Type:</b>	Outside the Treasury - Not Appropriated
	<b>Account Name:</b>	Texas School Employee Uniform Group Coverage Trust Fund		
	<b>Legal Cite(s):</b>	Title 34, Part 3, Chapter 41, Subchapter C, Texas Insurance Code, Section 1579.301		
	<b>Authorized Use:</b>	To record receipt of all revenue related to TRS Active Care program from whatever source derived and to record payments made for administrative expenses and for benefits granted by statute.		
	<b>Revenue Source:</b>	Member, employer and state contributions including premiums.		

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 4: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury - House**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Ranking:	Program Name	2018-19 Est/Budg	2020-21 Recommended	In Compliance with Authorized Use?
7	ActiveCare Administration	\$ 8,153,492	\$ 9,283,597	Yes
<b>Total</b>		<b>\$ 8,153,492</b>	<b>\$ 9,283,597</b>	

<b>Notes/Comments:</b>	State contributions to the ActiveCare Trust Fund total \$75 per member per month, distributed through the Foundation School Program. Districts are required to contribute a minimum of \$150 per member per month. State and employer payments subsidize monthly member premiums.
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4	<b>Account No:</b> 864	<b>Account Type:</b> Outside the Treasury - Not Appropriated
	<b>Account Name:</b> 403B Administrative Trust Fund, TRS	
	<b>Legal Cite(s):</b> Title 34, Part 3, Chapter 53, Vernon's Civil Statutes, Title 109, Article 6228a-5, Section 7	
	<b>Authorized Use:</b> To register and provide oversight of vendor 403(b) products.	
	<b>Revenue Source:</b> Vendor certification and product registration fees, not to exceed administrative costs to the system or \$5,000. Vendors are currently charged a flat rate of \$5,000 for each certification and each product registration.	

Ranking:	Program Name	2018-19 Est/Budg	2020-21 Recommended	In Compliance with Authorized Use?
8	403(b)	\$ 525,991	\$ 435,944	Yes
<b>Total</b>		<b>\$ 525,991</b>	<b>\$ 435,944</b>	

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 4: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury - House**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

	<b>2018-19 Est/Budg</b>	<b>2020-21 Recommended</b>
Outside the Treasury - Appropriated Funds	\$ 231,596,666	\$ 243,004,890
Outside the Treasury - Non-Appropriated Funds	\$ 26,944,738	\$ 25,108,776
<b>Total</b>	<b>\$ 258,541,404</b>	<b>\$ 268,113,666</b>

Note: Significant funding changes from 2018-19 to 2020-21 for Appropriated Funds include funding decreases related to the completion of the TEAM project and increases to reflect the full biennial cost of additional FTEs hired in the 2018-19 biennium. Changes for Non-Appropriated Funds reflect TRS management of programs based on demand for services and available revenues for each program.



Teacher Retirement System  
Strategic Fiscal Review Appendix 5a: Program Summary - House  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality		
			X
Authority			

Program: Public Education Retirement

Agency  
Ranking

1 out of 9

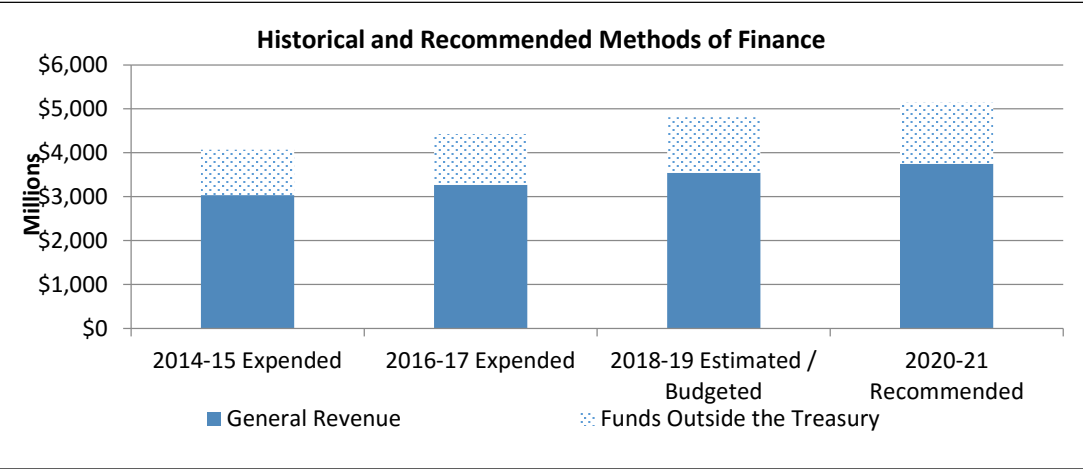
State matching contribution for public education employees.

Legal Authority: Texas Constitution, Art. 16, Sec. 67; Texas Government Code, Section 825.404

Year Implemented	1936	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	General Revenue-Dedicated Funds	N/A
Service Area	Statewide	State Service(s)	Employee Benefits Services	

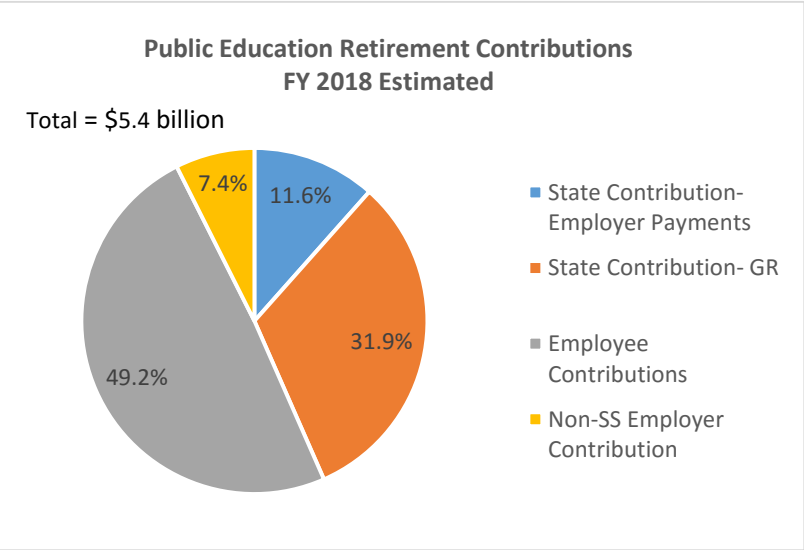
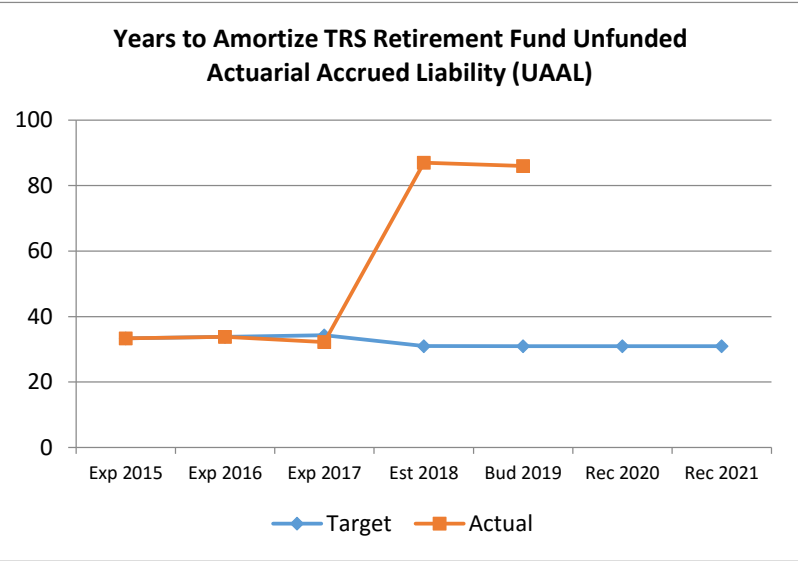
Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs	\$ 3,544,224,289	\$ 3,747,127,583	100.0%
Total	\$ 3,544,224,289	\$ 3,747,127,583	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 3,747,127,583	72.8%
Funds Outside the State Treasury	\$ 1,396,580,781	27.2%
Total	\$ 5,143,708,364	100.0%



Full-Time Equivalent Positions (FTEs)

Agency has no Full-Time-Equivalent Positions (FTEs) inside or outside the Treasury for this program. This program is only a revenue stream for the Pension Trust Fund.



Summary of Recommendations and Fiscal and Policy Issues

- Recommendations include an estimated \$3.7 billion in General Revenue in the 2020-21 biennium for the state contribution to Public Education Retirement. Combined with a projected \$1.4 billion in payments from public education employers as required by statute, recommendations provide a total state contribution equal to 6.8 percent of covered public education payroll for the 2020-21 biennium. Recommendations assume 3.9 percent payroll growth across Public Education Retirement and TRS-Care state contributions.
- In FY 2018, the TRS Board lowered its investment return assumption for the pension trust fund, increasing the amortization period to 87 years. (Actuarial soundness is defined in statute as less than 31 years.) In the 2020-21 biennium, TRS requests a 1.82 percentage point increase in the combined state, public education employer, and active employee contributions to make the pension fund actuarially sound. Current contribution rates total 6.8 percent for the state, 1.5 percent for public education employers not participating in Social Security, and 7.7 percent for employees. TRS estimates the cost of this increase in the 2020-21 biennium to be \$1.7 billion from all funding sources.

Recommended Statutory Changes for Program Improvement

- None.

Challenges and Enhancement Opportunities

- Provide a total 1.82 percentage point increase in the state, employer, and/or employee contributions to TRS Retirement. See Section 3, Selected Fiscal and Policy Issue 4.

Alternative Funding Options

- Provide a defined contribution retirement program instead of the current defined benefit program. TRS estimates it would cost approximately 90.0 percent more than the current program to provide the same benefit level to retirees under an optimized defined contribution plan (investing in only target date funds) and 124.0 percent more than the current program to under a self-directed defined contribution plan. If the Legislature chose to maintain current contribution rates under an optimized or self-directed defined contribution plan, TRS estimates the plans would replace 35.4 percent and 29.9 percent, respectively, of a career employee's pre-retirement income, compared to an estimated 69.4 percent under the current program.

TRS also anticipates closing the current defined benefit plan to new members would increase the current unfunded actuarially accrued liability by \$15.5 billion or 33.5 percent.

Teacher Retirement System  
Strategic Fiscal Review Appendix 5a: Program Summary - House  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
			X
Authority			

Program: Higher Education Retirement

Agency  
Ranking

2 out of 9

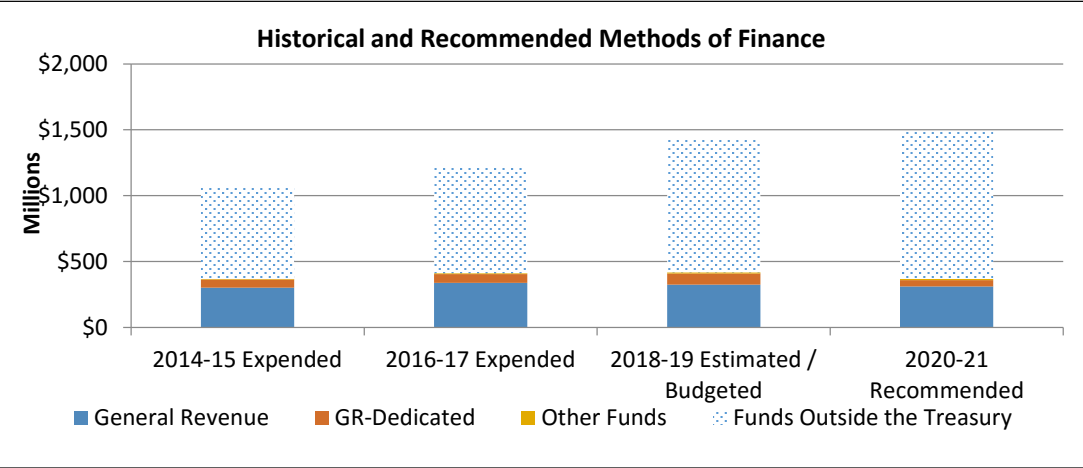
State matching contribution for higher education employees.

Legal Authority: Texas Constitution, Art. 16, Sec. 67; Texas Government Code, Section 825.404

Year Implemented	1936	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	Employee Benefits Services	

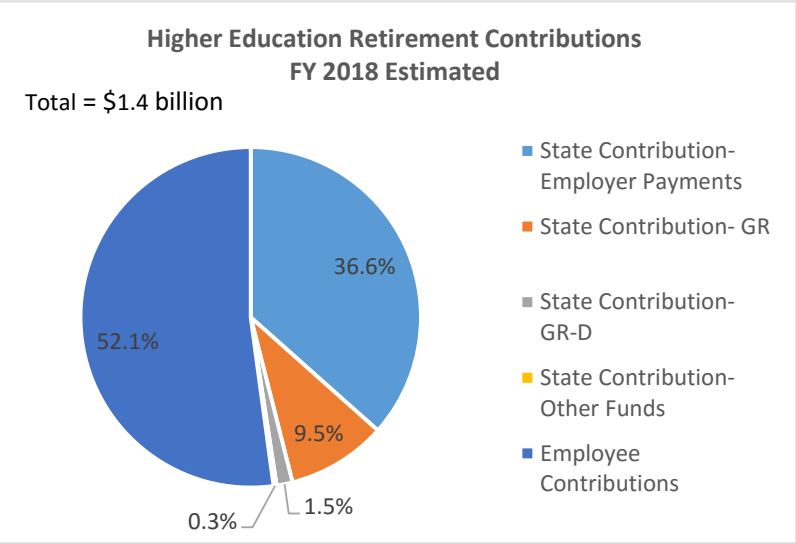
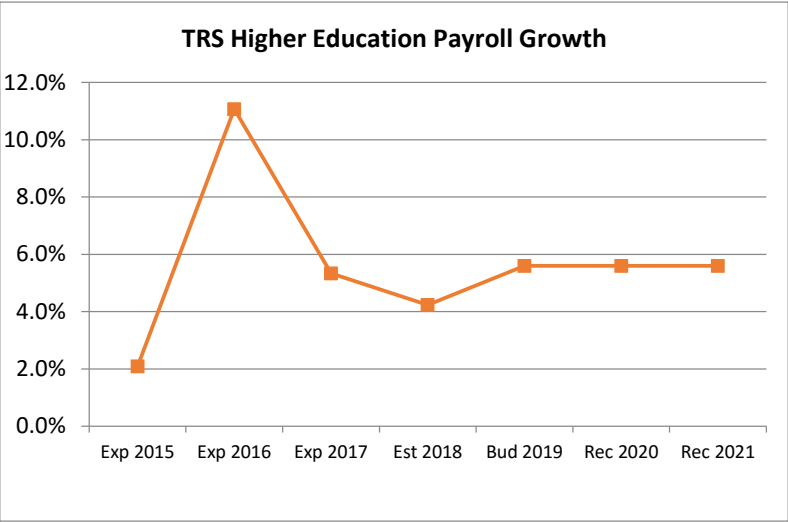
Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs	\$ 417,952,238	\$ 368,477,887	100.0%
Total	\$ 417,952,238	\$ 368,477,887	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 368,477,887	24.8%
Funds Outside the State Treasury	\$ 1,119,869,473	75.2%
Total	\$ 1,488,347,360	100.0%



Full-Time Equivalent Positions (FTEs)

Agency has no Full-Time-Equivalent Positions (FTEs) inside or outside the Treasury for this program. This program is only a revenue stream for the Pension Trust Fund.



Summary of Recommendations and Fiscal and Policy Issues

- Recommendations include an estimated \$368.5 million in All Funds in the 2020-21 biennium for the state contribution to Higher Education Retirement, consisting of \$310.6 million in GR, \$48.8 million in GR-D, and \$9.1 million in Other Funds. Combined with a projected \$1.1 billion in payments from higher education employers as required by statute, recommendations provide a total state contribution equal to 6.8 percent of covered higher education payroll for the 2020-21 biennium. Recommendations assume 5.6 percent payroll growth in the Higher Education Retirement state contribution.
- In FY 2018, the TRS Board lowered its investment return assumption for the pension trust fund, increasing the amortization period to 87 years. (Actuarial soundness is defined in statute as less than 31 years.) In the 2020-21 biennium, TRS requests a 1.82 percentage point increase in the combined state, public education employer, and active employee contributions to make the pension fund actuarially sound. Current contribution rates total 6.8 percent for the state, 1.5 percent for public education employers not participating in Social Security, and 7.7 percent for employees. TRS estimates the cost of this increase in the 2020-21 biennium to be \$1.7 billion from all funding sources.

Recommended Statutory Changes for Program Improvement

- None.

Challenges and Enhancement Opportunities

- Provide a total 1.82 percentage point increase in the state, employer, and/or employee contributions to TRS Retirement. See Section 3, Selected Fiscal and Policy Issue 4.

Alternative Funding Options

- Provide a defined contribution retirement program instead of the current defined benefit program. TRS estimates it would cost approximately 90.0 percent more than the current program to provide the same benefit level to retirees under an optimized defined contribution plan (investing in only target date funds) and 124.0 percent more than the current program to under a self-directed defined contribution plan. If the Legislature chose to maintain current contribution rates under an optimized or self-directed defined contribution plan, TRS estimates the plans would replace 35.4 percent and 29.9 percent, respectively, of a career employee's pre-retirement income, compared to an estimated 69.4 percent under the current program.

TRS also anticipates closing the current defined benefit plan to new members would increase the current unfunded actuarially accrued liability by \$15.5 billion or 33.5 percent.

Teacher Retirement System  
Strategic Fiscal Review Appendix 5a: Program Summary - House  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
			X
Authority			

Program: Retiree Health Care Benefits (TRS-Care)

Agency Ranking 3 out of 9

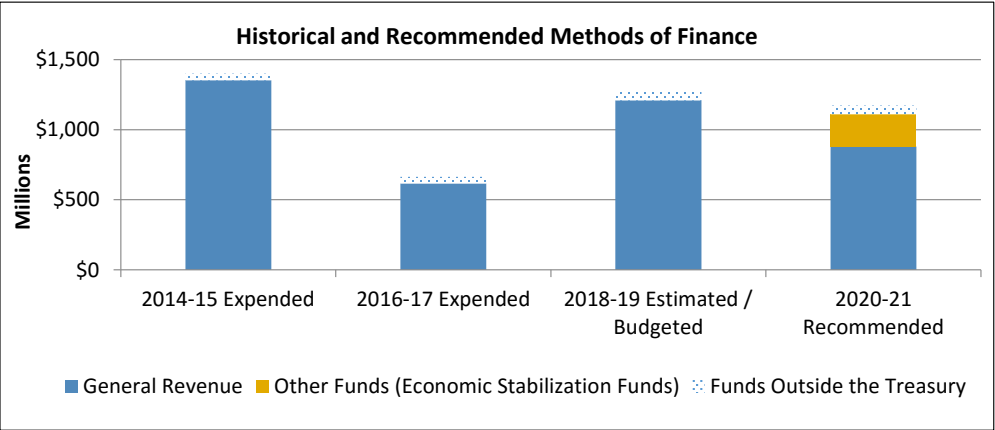
An employee benefit trust fund that provides health care coverage to eligible retirees of participating entities (i.e., school districts, open enrollment charter schools, regional education service centers, or other educational districts) who retire under TRS and their eligible dependents.

Legal Authority: Texas Insurance Code, Section 1575.202

Year Implemented	1986	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issue	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	General Revenue-Dedicated Funds	N/A
Service Area	Statewide	State Service(s)	Employee Benefits Services	

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs	\$ 1,209,597,636	\$ 1,110,116,548	100.0%
Total	\$ 1,209,597,636	\$ 1,110,116,548	100.0%

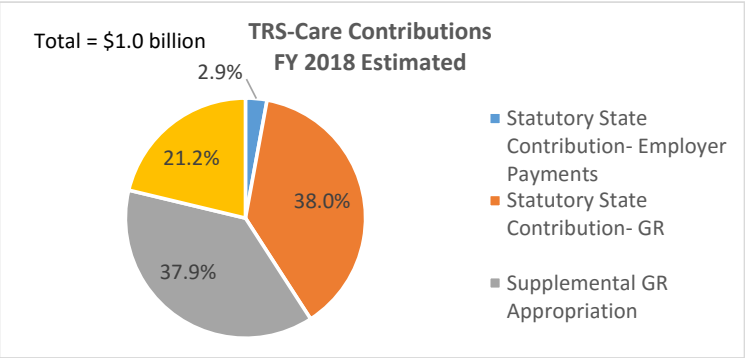
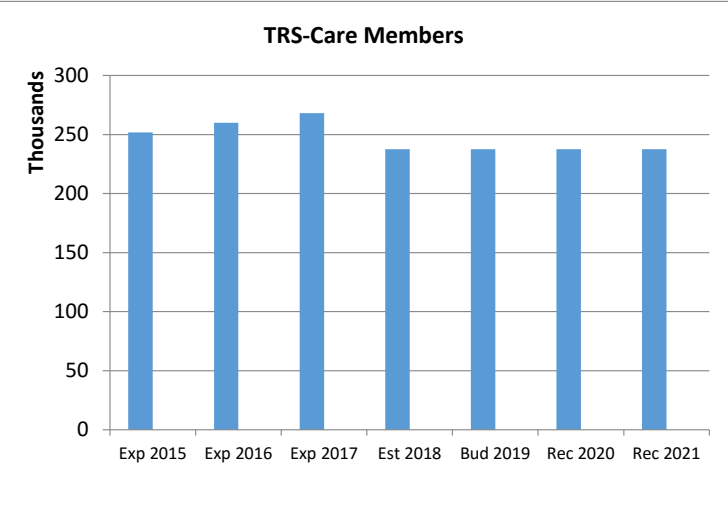
	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 1,110,116,548	94.7%
Funds Outside the State Treasury	\$ 62,036,390	5.3%
Total	\$ 1,172,152,938	100.0%



Note: General Revenue amounts above include supplemental GR funding for TRS-Care totaling \$804.2 million in 2014-15, \$15.7 million in 2016-17, \$394.6 million in 2018-19, and \$230.8 million in 2020-21.

Full-Time Equivalent Positions (FTEs)

Agency has no Full-Time-Equivalent Positions (FTEs) inside or outside the Treasury for this program. This program is only a revenue stream for the Retired School Employees Group Insurance (TRS-Care) Trust Fund.



**Summary of Recommendations and Fiscal and Policy Issues**

- Recommendations include an estimated \$879.4 million in General Revenue in the 2020-21 biennium for the statutory state contribution to TRS-Care. Combined with a projected \$62.0 million in payments from public education employers as required by statute, recommendations provide a total state contribution equal to 1.25 percent of public education salaries for the 2020-21 biennium. Recommendations assume 3.9 percent payroll growth across the Public Education Retirement and TRS-Care state contributions.
- Recommendations include \$230.8 million in Economic Stabilization Funds above statutorily required amounts to maintain TRS-Care plan year 2019 premiums and benefit levels in the 2020-21 biennium.

The Eighty-fifth Legislature enacted significant reforms to the TRS-Care program, increased the state and employer contributions to 1.25 percent and 0.75 percent, respectively, and provided \$394.6 million in additional supplemental funding to TRS-Care in the 2018-19 biennium. TRS implemented the new plan structure in FY 2018, which resulted in premium and out of pocket cost increases for most members. As a result of the changes, approximately 11.4% of TRS-Care members left the program in FY 2018.

**Recommended Statutory Changes for Program Improvement**

- None.

**Challenges and Enhancement Opportunities**

- None.

**Alternative Funding Options**

- Require employers to pay the Statutory Minimum and New Member contributions for TRS-Care. Currently these payments are only required for Public Education Retirement contributions. Based on FY 2017 New Member and Statutory Minimum contributions for Public Education Retirement, TRS assumes the New Member contribution for TRS-Care would save the state \$7.6 million per year and the Statutory Minimum contribution for TRS-Care would save \$71.9 million per year, for a total of \$159.0 million in GR savings for the 2020-21 biennium.
- Pre-fund TRS-Care benefits. Currently, TRS-Care is funded on a pay as you go basis, with current year contributions expended immediately on retiree health benefits. If the Legislature chose to pre-fund TRS-Care's long term obligations, assuming a 30-year amortization period and current employee and employer contributions remaining at the current 0.65 percent and 0.75 percent of payroll, respectively, the state contribution rate would need to increase from 1.25 percent to 5.35 percent. TRS estimates the cost of this increase to be \$2.7 billion in the 2020-21 biennium and \$74.1 billion over 30 years. Contributions would exceed the current year cost of benefits until the unfunded liability was fully paid; however, investment returns (assumed to be 7.25 percent per year) would exceed the cost of current year benefits and result in long-term savings to the state.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5a: Program Summary - House**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

Mission Centrality/Authority			
	Centrality	→	
↑			X
Authority			

**Program: Benefit Services**

**Agency Ranking**  

4 out of 9

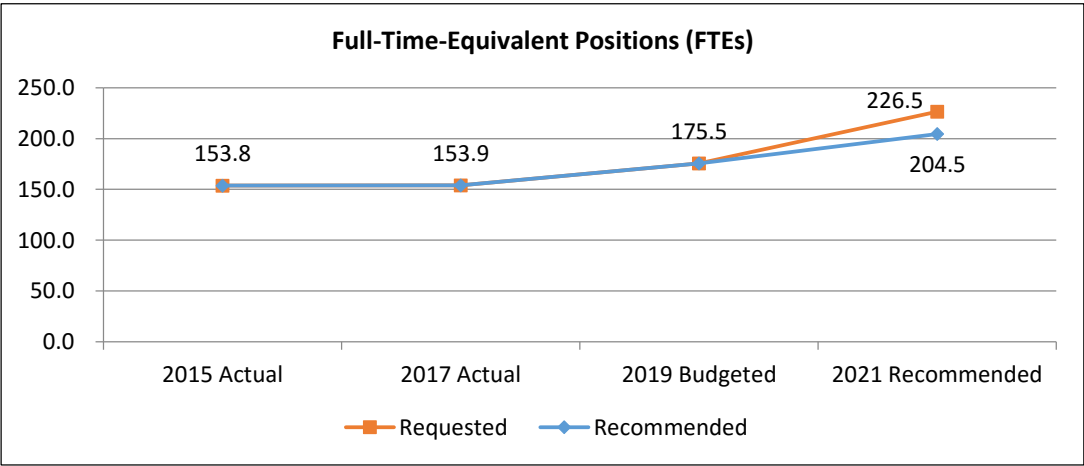
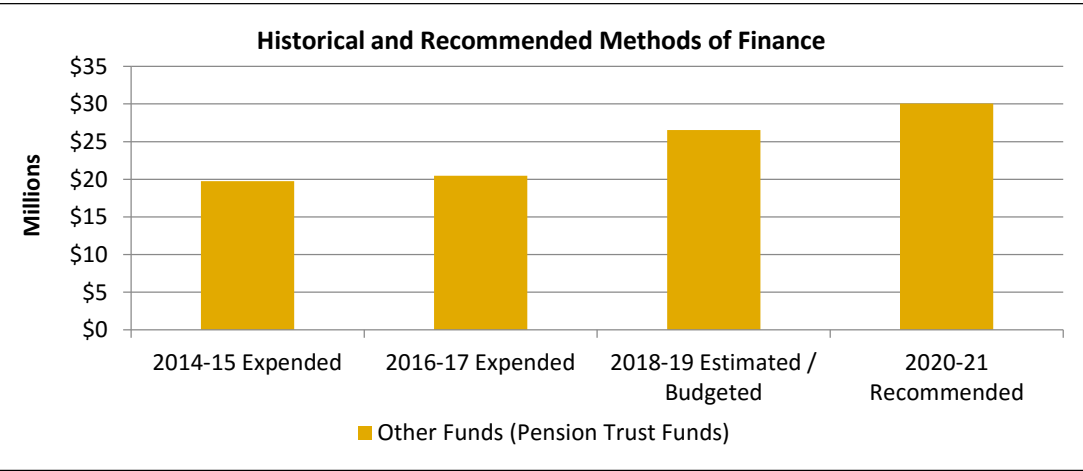
Benefit Services processes benefit payments and provides customer service and information to active members, retirees, and beneficiaries.

**Legal Authority:** Texas Constitution, Article 16, Section 67(b)(1); Texas Government Code, Sections 825.101 and 825.102; Texas Administrative Code, Title 34, Part 3, Chapter 29

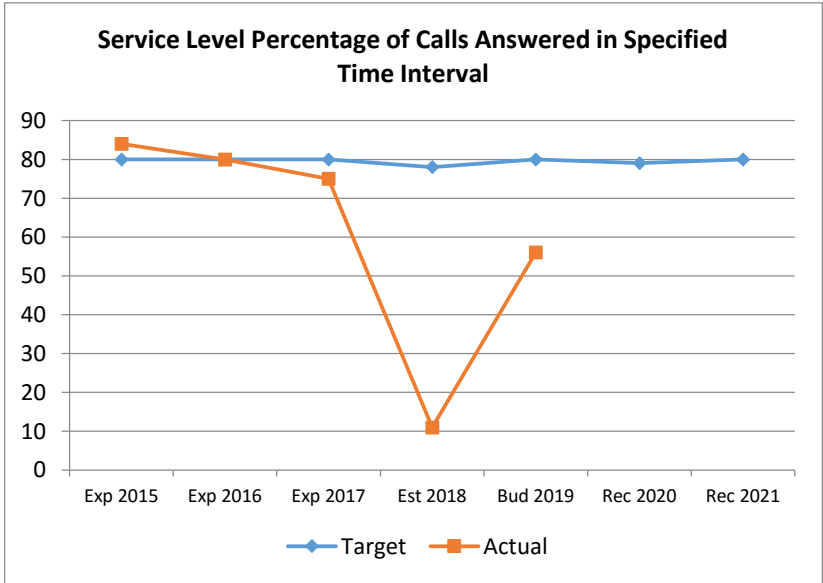
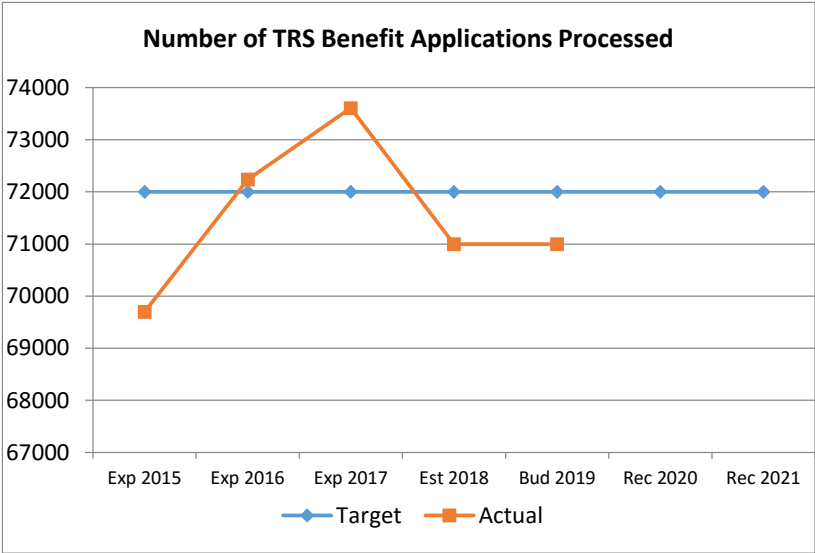
<b>Year Implemented</b>	1936	<b>Performance and/or</b>		<b>Revenue Supported</b>	No
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	State Government Administration & Support		

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs	\$ 25,709,733	\$ 29,012,699	96.5%
Operating Costs	\$ 819,898	\$ 1,040,683	3.5%
<b>Total</b>	<b>\$ 26,529,631</b>	<b>\$ 30,053,382</b>	<b>100.0%</b>

	2020-21 Recommended	% of Total
Appropriated Funds	\$ 30,053,382	100.0%
Non-Appropriated Funds	\$ -	0.0%
<b>Total</b>	<b>\$ 30,053,382</b>	<b>100.0%</b>



Note: All program FTEs are included in the agency's bill pattern.



**Summary of Recommendations and Fiscal and Policy Issues**

- 1 Recommendations include \$30.1 million in Pension Trust Funds for the 2020-21 biennium, including maintaining funding for an additional 43.0 FTEs hired in the 2018-19 biennium related to increased customer service demands. Recommendations do not include approximately \$3.6 million in Pension Trust Funds for 22.0 FTEs that TRS requests to add to its FTE cap for the 2020-21 biennium.

**Recommended Statutory Changes for Program Improvement**

- 1 None.

**Challenges and Enhancement Opportunities**

- 1 During spring 2018, TRS experienced historic customer call volumes and handle times in the Telephone Counseling Center (TCC) due to the implementation of the TEAM project, the changes to the TRS-Care program, and other statutory requirements and deadlines. As a result, in FY 2018 TRS was only able to answer 15.1 percent of calls within three minutes, well below its performance standard of 80.0 percent.

TRS has implemented new call center software to better manage calls and emails and projects it will be able to achieve the 80.0 percent target again by FY 2021.

**Alternative Funding Options**

- 1 To provide a customer service level of 80.0 percent of calls answered within two minutes rather than three minutes, TRS estimates it would require an additional 32.0 FTEs and \$1.4 million in Pension Trust Funds above TRS' 2020-21 base request.



**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5a: Program Summary - House**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

Mission Centrality/Authority			
	Centrality	→	
↑			X
Authority			

**Program: Investment Management Division**

Agency Ranking

5 out of 9

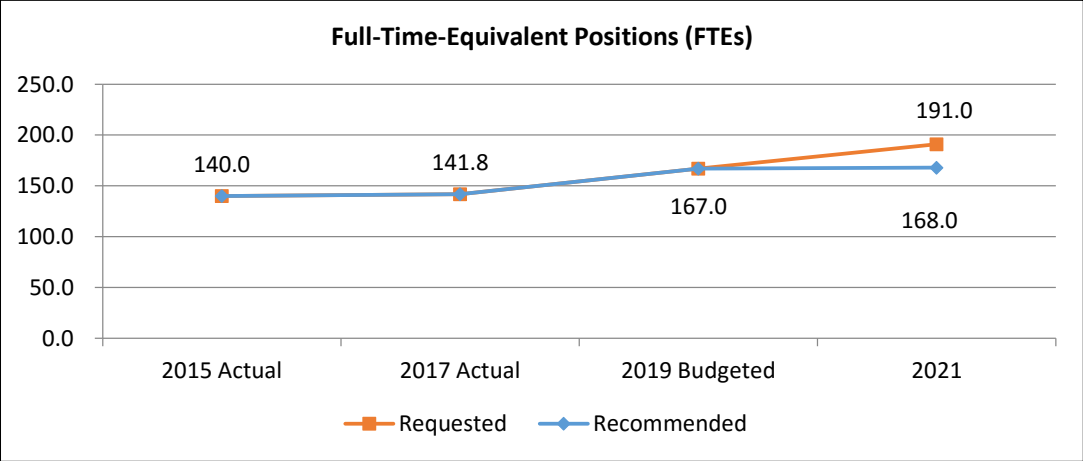
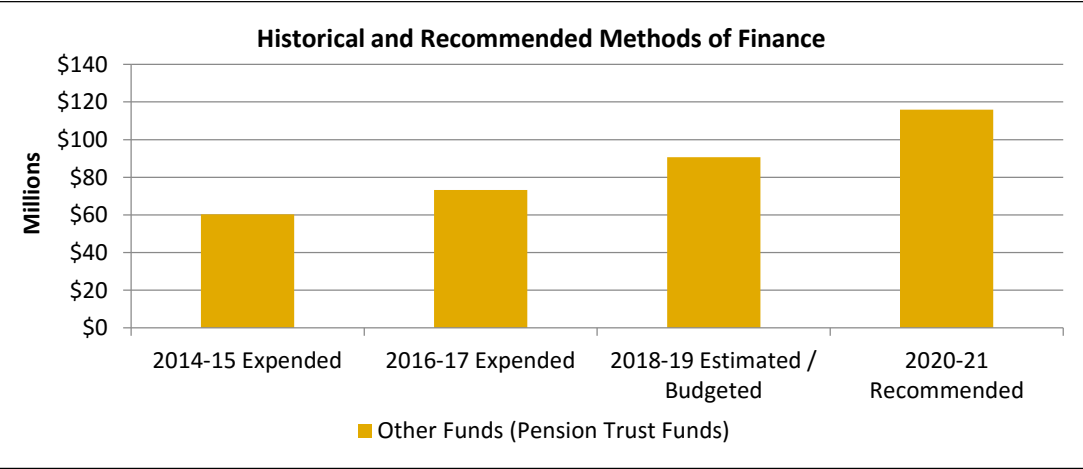
The Investment Management Division implements investment policies as directed by the TRS board, emphasizing long-term performance and maximizing investment returns.

**Legal Authority:** Texas Constitution, Article 16, Section 67(a)(3); Texas Government Code, Sections 825.103 and 825.301

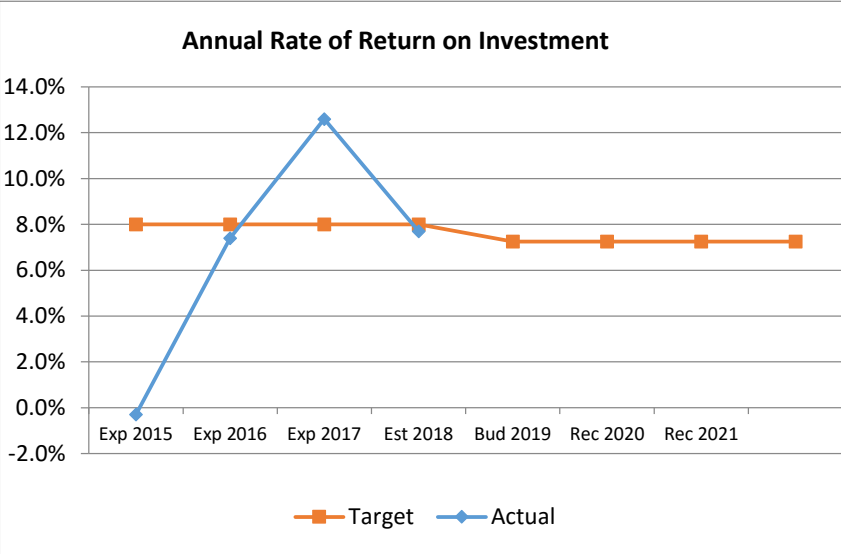
<b>Year Implemented</b>	1936	<b>Performance and/or</b>		<b>Revenue Supported</b>	No
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	State Government Administration & Support		

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs	\$ 75,562,574	\$ 94,347,037	81.3%
Operating Costs	\$ 15,024,016	\$ 21,641,040	18.7%
<b>Total</b>	<b>\$ 90,586,590</b>	<b>\$ 115,988,077</b>	<b>100.0%</b>

	2020-21 Recommended	% of Total
Appropriated Funds	\$ 115,988,077	100.0%
Non-Appropriated Funds	\$ -	0.0%
<b>Total</b>	<b>\$ 115,988,077</b>	<b>100.0%</b>



Note: All program FTEs are included in the agency's bill pattern.

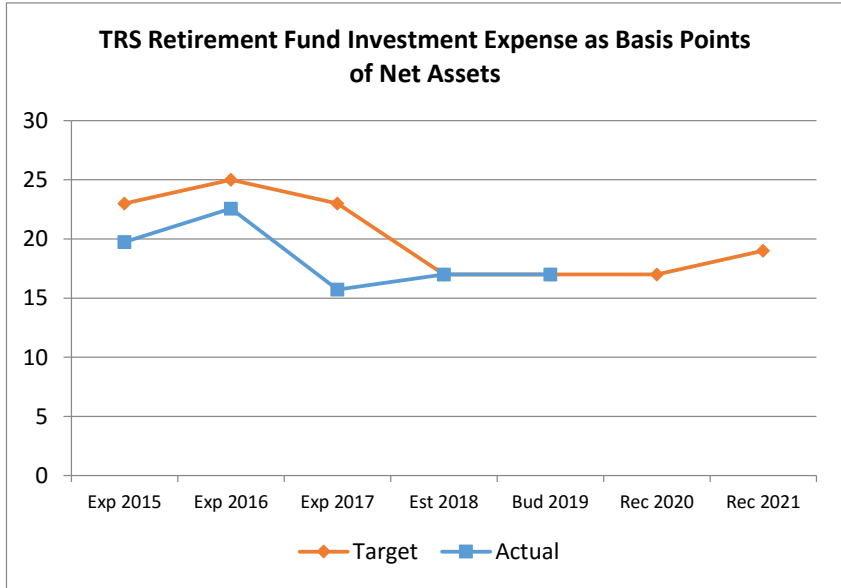


Summary of Recommendations and Fiscal and Policy Issues

- Recommendations include \$116.0 million in Pension Trust Funds for the 2020-21 biennium, including maintaining funding for an additional 22.0 FTEs hired in the 2018-19 biennium. Recommendations do not include approximately \$8.4 million in Pension Trust Funds for 23.0 additional IMD FTEs in the 2020-21 biennium.
- In FY 2018 the TRS Board reduced its investment return assumption from 8.0 percent to 7.25 percent based on recommendations from its consulting actuary.
- TRS currently pays incentive compensation to IMD staff based on benchmarks set by the TRS Board. In 2017, TRS paid \$9.1 million in incentive compensation to 134 IMD staff.

Recommended Statutory Changes for Program Improvement

- None.



Challenges and Enhancement Opportunities

- TRS requests an additional 23.0 FTEs for IMD totaling \$8.4 million in the 2020-21 biennium. TRS estimates that hiring these additional staff will save \$197.0 million in management fees through FY 2021. Additional staff will result in an increased allocation to public markets internal management and increased private markets principal investing.

Alternative Funding Options

- To track the TRS Board's management of Pension Trust Fund assets, add a new performance measure comparing the performance of TRS' current active management approach to returns achieved through passive index funds. Measure could show the difference between the annual TRS return on the market value of assets and the return of a major U.S. index, such as the S&P 500, over the same period.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5f: Program Summary- House**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

Mission Centrality/Authority			
	Centrality	→	
↑			X
Authority			

**Program: TRS Care Administration**

**Agency Ranking** 6 out of 9

Administration of health care benefits for retired public school employees and their dependents. Program is funded entirely from the TRS-Care trust fund.

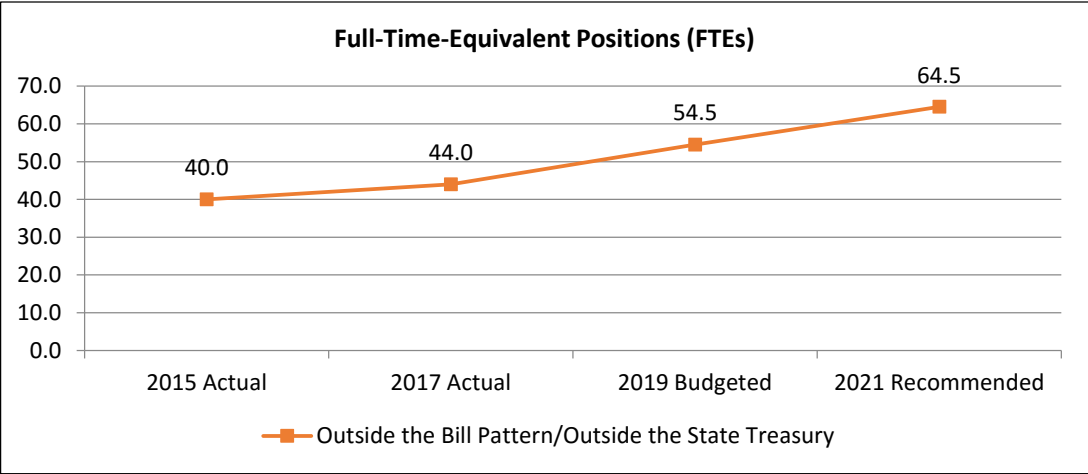
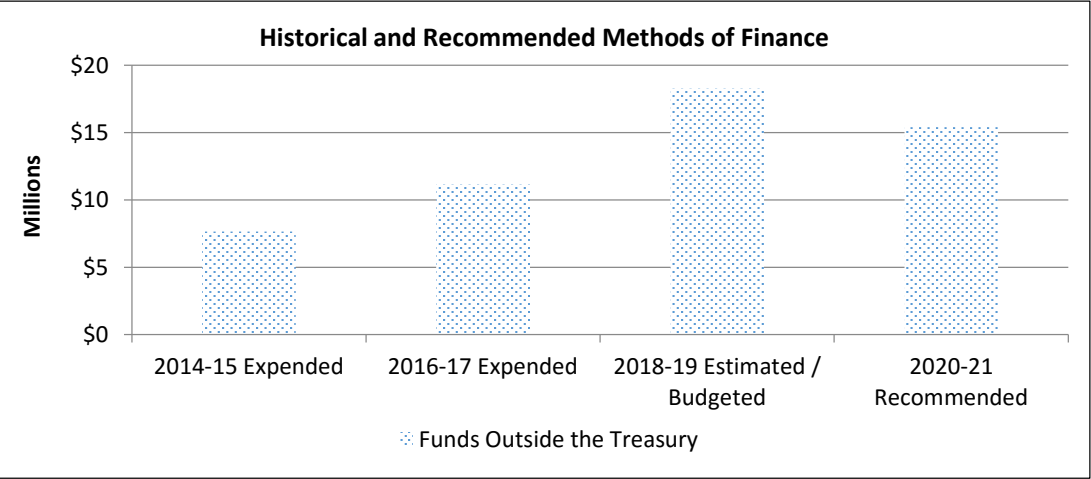
**Legal Authority:** Texas Insurance Code, Sections 1575.051 and 1575.052; Texas Administrative Code, Title 34, Part 3, Chapter 41, Subchapter A

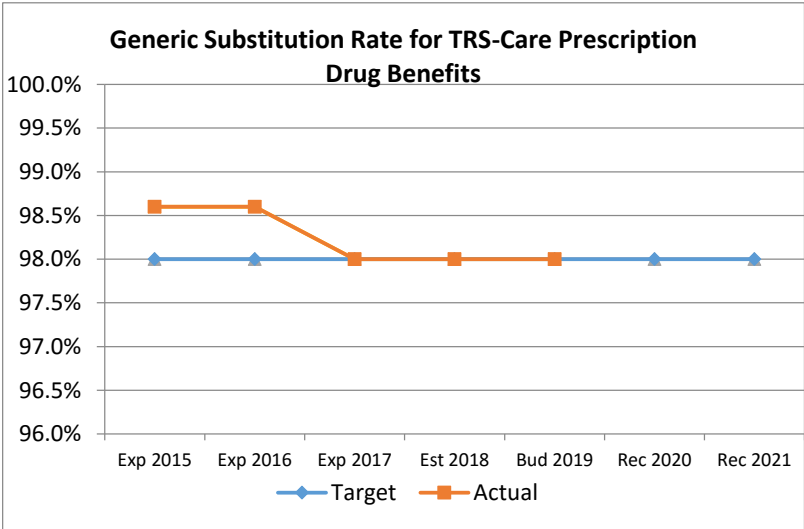
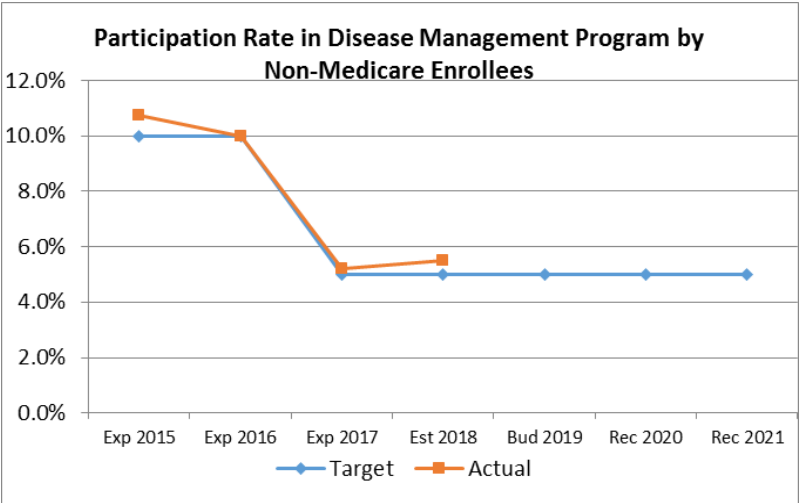
<b>Year Implemented</b>	1986	<b>Performance and/or</b>		<b>Revenue Supported</b>	No
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>			

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
<b>Personnel Costs-Outside*</b>	\$ 7,715,766	\$ 8,714,924	56.6%
<b>Operating Costs-Outside*</b>	\$ 10,549,489	\$ 6,674,311	43.4%
<b>Total</b>	\$ 18,265,255	\$ 15,389,235	100.0%

	2020-21 Recommended	% of Total
Appropriated Funds	\$ -	0.0%
Non-Appropriated Funds	\$ 15,389,235	100.0%
<b>Total</b>	<b>\$ 15,389,235</b>	<b>100.0%</b>

\*Indicates Outside the Bill Pattern/Outside the State Treasury.





Summary of Recommendations and Fiscal and Policy Issues

- TRS-Care Administration is funded entirely using non-appropriated TRS-Care Trust Funds. Recommendations do not include any appropriated amounts for this program in the 2020-21 biennium.

Recommended Statutory Changes for Program Improvement

- None.

Challenges and Enhancement Opportunities

- TRS-Care experiences rising health care prices due to a combination of factors including increased utilization, the impact of chronic conditions, and increases in drug costs. Like other plans, a small portion of TRS’ plan participants account for a disproportionate amount of health care spending. For example, participants with chronic diseases such as diabetes have a much higher rate of emergency room visits than the non-diabetic population, more inpatient admissions, longer hospital stays and higher readmission rates. TRS and its health plan administrators will continue to identify and enhance programs that help contain costs while managing populations with chronic and complex health conditions.

Alternative Funding Options

- Contract with a telemedicine provider to offer virtual visits with no patient copay using a fixed per member per month payment model. Currently TRS covers virtual visits for TRS-Care Standard Plan members for \$40 per visit. Based on FY 2018 utilization data indicating approximately 4,600 virtual visits per year and on an assumed fair market value cost of \$40 per visit, this option is estimated to cost \$368,000 in TRS-Care Trust Funds in the 2020-21 biennium.

This option could result in cost savings for the TRS-Care Trust Fund in the 2020-21 biennium depending on how virtual visits impact overall utilization trends. The Employees Retirement System (ERS) indicates that implementing a \$0 copay virtual visit benefit in FY 2018 resulted in approximately \$1.0 million in annual cost savings for the HealthSelect plan. However, the funding impact to TRS-Care may vary due to differences in plan design, population, and utilization trends.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5a: Program Summary - House**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

Mission Centrality/Authority			
	Centrality	→	
↑			X
Authority			

**Program: ActiveCare Administration**

**Agency Ranking** 7 out of 9

TRS-ActiveCare is a self-funded health care program that provides coverage to employees and dependents of participating public education entities.

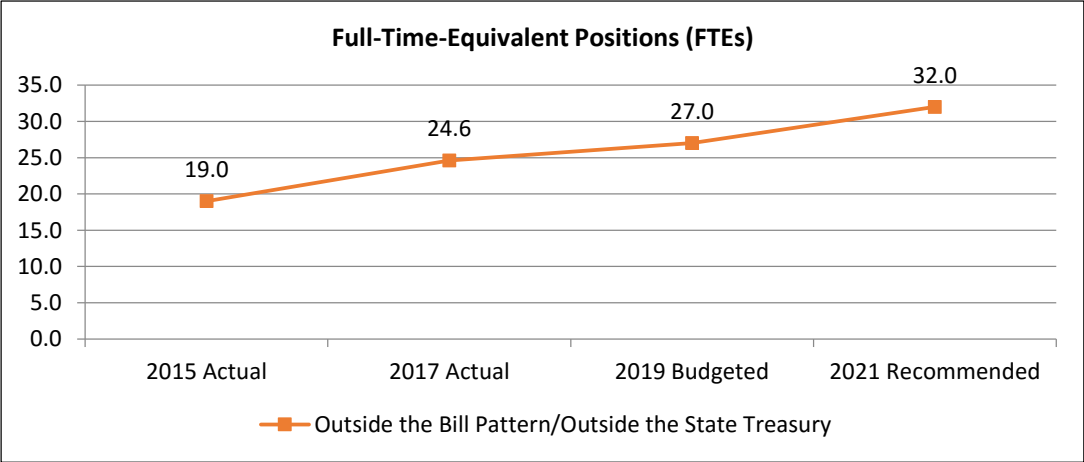
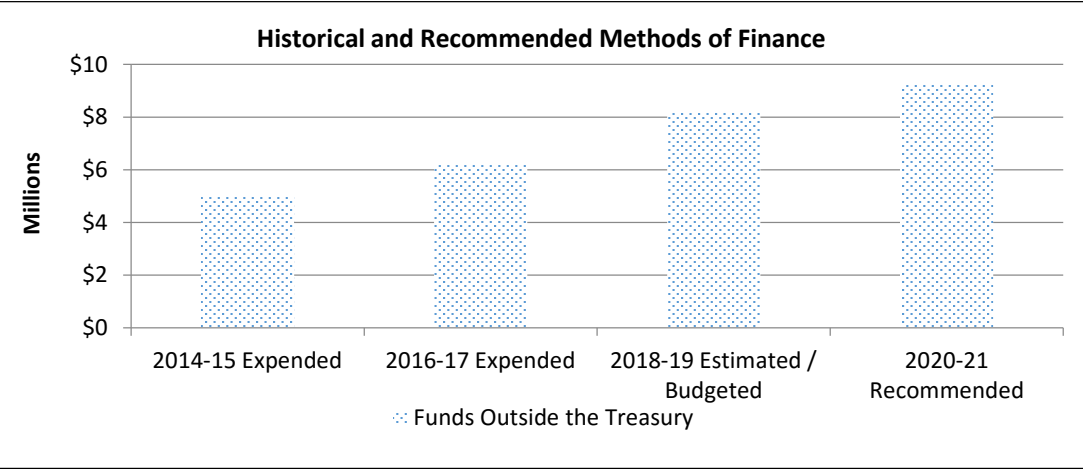
**Legal Authority:** Texas Insurance Code, Sections 1579.051 and 1575.052; Texas Administrative Code, Title 34, Part 3, Chapter 41, Subchapter C

<b>Year Implemented</b>	2002	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>			

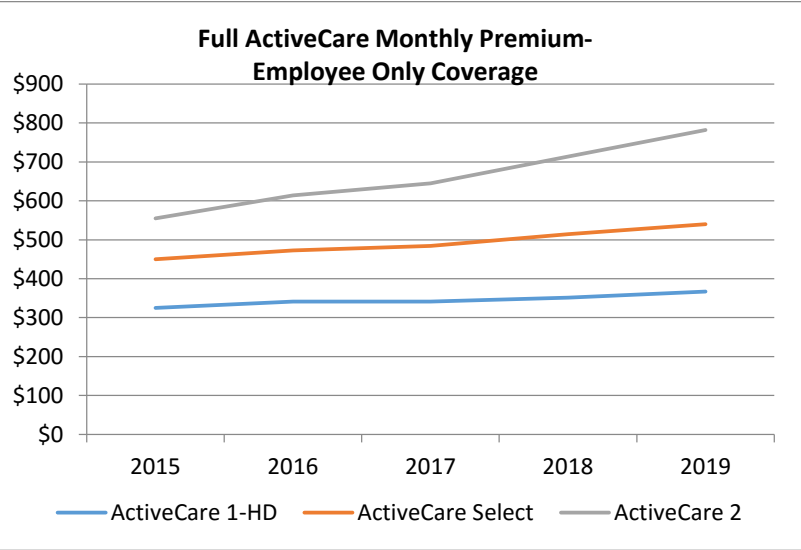
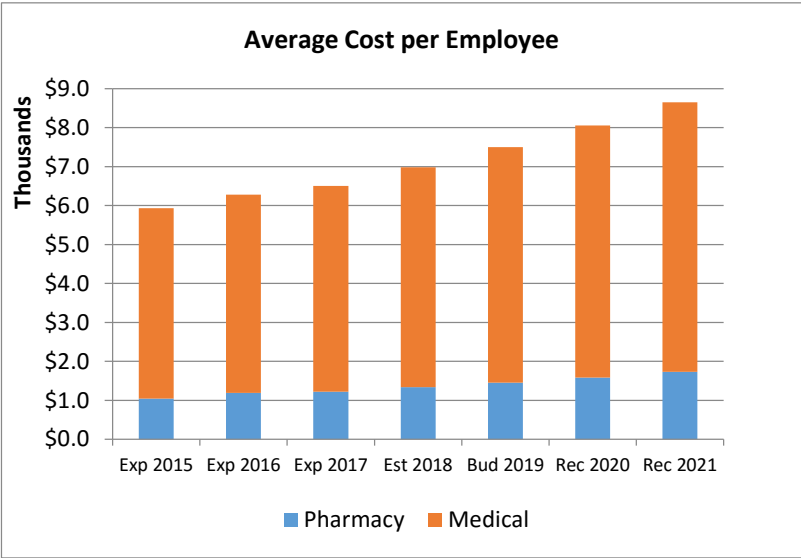
Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs-Outside*	\$ 4,234,806	\$ 5,109,666	55.0%
Operating Costs-Outside*	\$ 3,918,686	\$ 4,173,931	45.0%
<b>Total</b>	<b>\$ 8,153,492</b>	<b>\$ 9,283,597</b>	<b>100.0%</b>

	2020-21 Recommended	% of Total
Appropriated Funds	\$ -	0.0%
Non-Appropriated Funds	\$ 9,283,597	100.0%
<b>Total</b>	<b>\$ 9,283,597</b>	<b>100.0%</b>

\*Indicates Outside the Bill Pattern/Outside the State Treasury.



Note: None of the program FTEs are included in the agency's bill pattern.



Summary of Recommendations and Fiscal and Policy Issues

- 1 TRS Active-Care Administration is funded entirely using non-appropriated TRS ActiveCare Trust Funds. Recommendations do not include any appropriated amounts for this program in the 2020-21 biennium.
- 2 Significant cost growth in the ActiveCare program without additional state subsidy has reduced the program affordability for members. In FY 2017 and FY 2018 the Board approved premium increases and plan design changes for ActiveCare. Additionally, in FY 2019 the Board eliminated TRS-ActiveCare 2, the richest benefit package plan, as an option for new enrollees beginning Sept. 1, 2018.

Recommended Statutory Changes for Program Improvement

- 1 None.

Challenges and Enhancement Opportunities

- 1 TRS indicated a need for member education about the benefits and resources available to support participants in maintaining and improving their health, particularly for those on a high deductible health plan.

Alternative Funding Options

- 1 Direct TRS to administer a Health Savings Account (HSA) program allowing ActiveCare HD-1 participants to save pre-tax earnings via payroll deduction to pay future out of pocket healthcare costs. Participation would result in federal income tax savings for members, which could partially subsidize out of pocket costs and increase plan affordability.

TRS indicates costs to administer an HSA would be approximately \$2.50-\$4.50 per month per account, resulting in an administrative cost of approximately \$20.0 million to \$24.0 million for the 2020-21 biennium. This cost could be paid for with member account fees. This option would require statutory amendment to establish the program.

Teacher Retirement System  
Strategic Fiscal Review Appendix 5a: Program Summary - House  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
		X	
Authority			

Program: 403(b)

Agency  
Ranking

8 out of 9

Administrative operations associated with the certification and registration of 403(b) companies and products. Registered 403(b) products are tax-deferred retirement savings accounts offered to TRS public education members. The state does not contribute to member 403(b) accounts and no funds are appropriated by the Legislature for program administration.

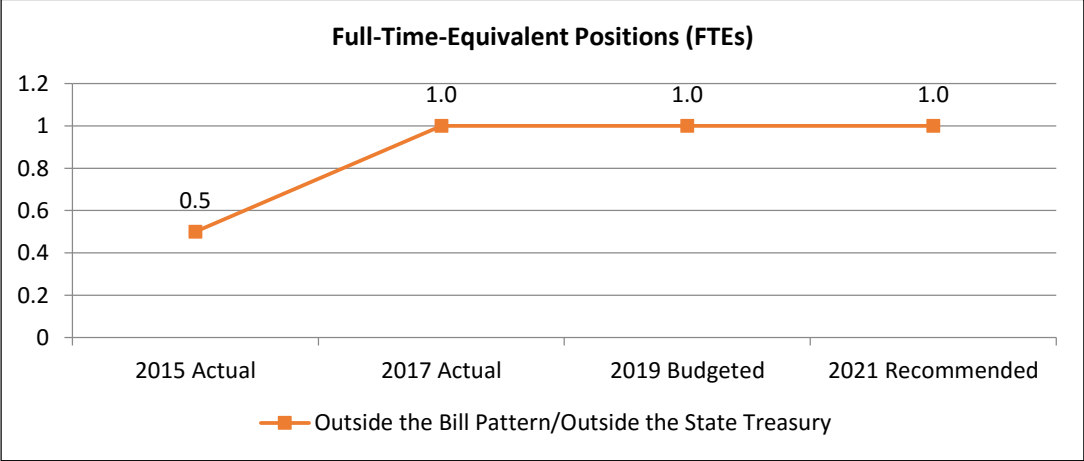
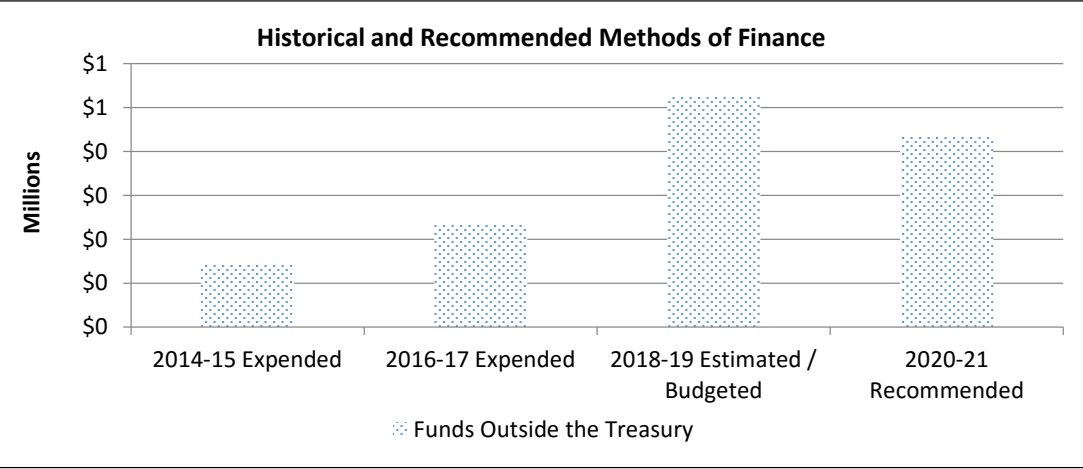
Legal Authority: Vernon's Civil Statutes, Article 6228a-5; Texas Administrative Code, Title 34, Chapter 53

Year Implemented	2002	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Moderate	Outsourced Services	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)		

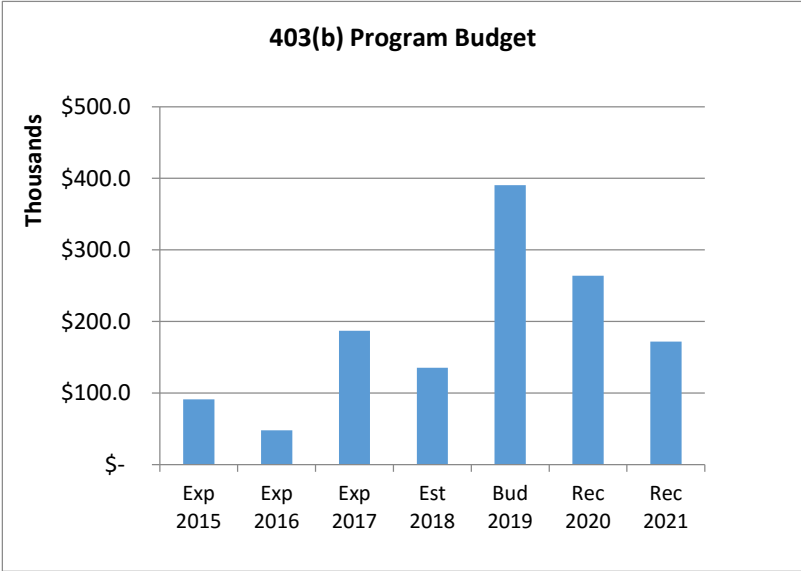
Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs-Outside*	\$ 172,985	\$ 231,997	53.2%
Operating Costs-Outside*	\$ 353,006	\$ 203,947	46.8%
Total	\$ 525,991	\$ 435,944	100.0%

\*Indicates Outside the Bill Pattern/Outside the State Treasury.

	2020-21 Recommended	% of Total
Appropriated Funds	\$ -	0.0%
Non-Appropriated Funds	\$ 435,944	100.0%
Total	\$ 435,944	100.0%



Note: None of the program FTEs are included in the agency's bill pattern.



**Summary of Recommendations and Fiscal and Policy Issues**

- 1 Recommendations do not include any appropriated amounts for this program in the 2020-21 biennium. The 403(b) program is funded entirely using non-appropriated TRS 403(b) Trust Funds. Program revenues include 403(b) company and product certification fees.

**Recommended Statutory Changes for Program Improvement**

- 1 Require TRS to collect data on actual asset-based fees charged to members who participate in each registered 403(b) product.

**Challenges and Enhancement Opportunities**

- 1 TRS does not collect data on the average asset-based fees charged to members by 403(b) vendors. TRS could collect and publish this information to help members evaluate 403(b) product options.
- 2 TRS does not regularly collect information on member participation in TRS-registered 403(b) plans, such as the number of participants, current payroll deduction rates, or the value of assets held in those plans. TRS could collect participation information from employers to assess program utilization and opportunities to increase supplemental retirement saving among TRS members.

**Alternative Funding Options**

- 1 Study the feasibility of consolidating the current 403(b) vendor registration program into a single 403(b) supplemental retirement option similar to the TexaSaver program for state employees. Currently, TRS-certified 403(b) products may charge up to 2.75% in asset-based fees. This is significantly higher than current TexaSaver account fees, which range from \$0.00 to \$13.62 per month depending on the value of invested assets. Under a consolidated program, TRS would contract with a vendor to administer the program and charge low member account fees sufficient to cover ongoing program costs.

To determine feasibility, TRS would review legal requirements, plan design options, and any onetime transition costs borne by the state.



Teacher Retirement System  
Strategic Fiscal Review Appendix 5a: Program Summary - House  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
		X	
Authority			

Program: Support Services and Administration

Agency  
Ranking

9 out of 9

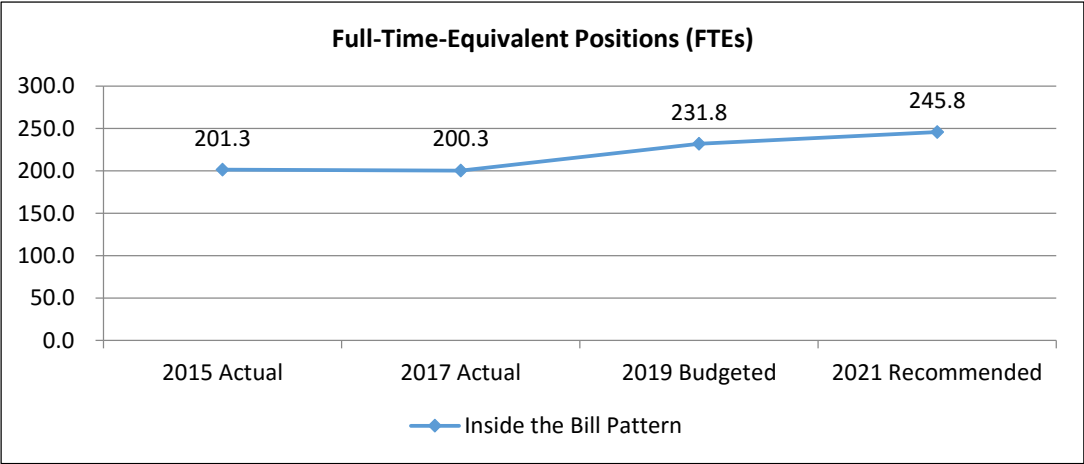
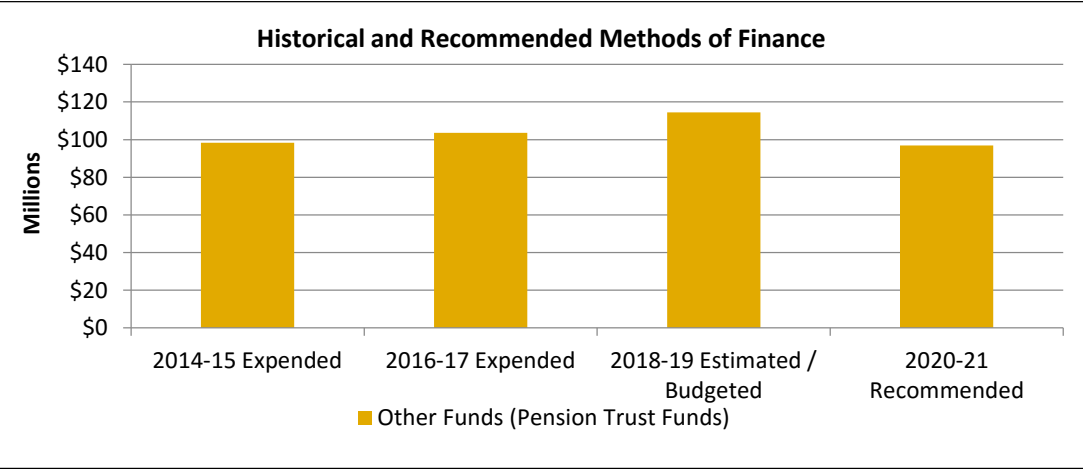
Administrative operations associated with the delivery of retirement benefits and the management of assets. Internal divisions within TRS including the finance division, IT division, HR, Legal, Communications, Audit and others.

Legal Authority: Texas Government Code, Sections 825.101 and 825.102; Texas Administrative Code, Title 34, Part 3, Chapter 51

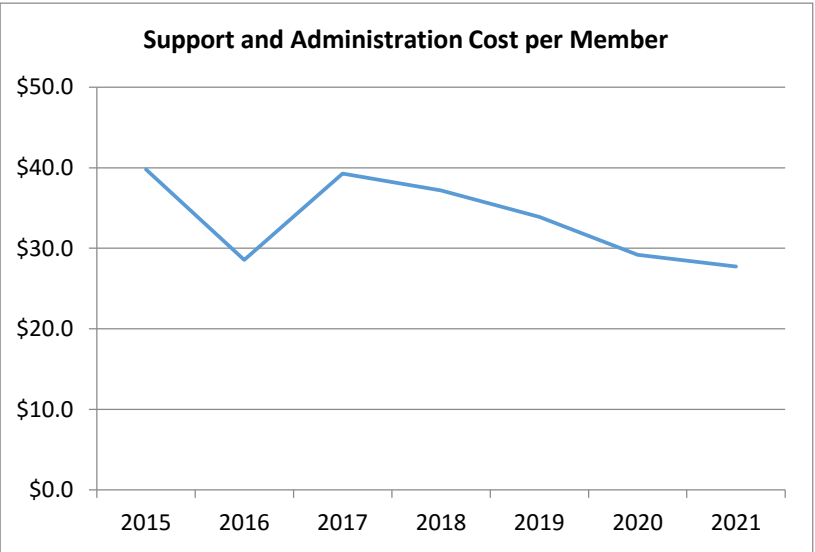
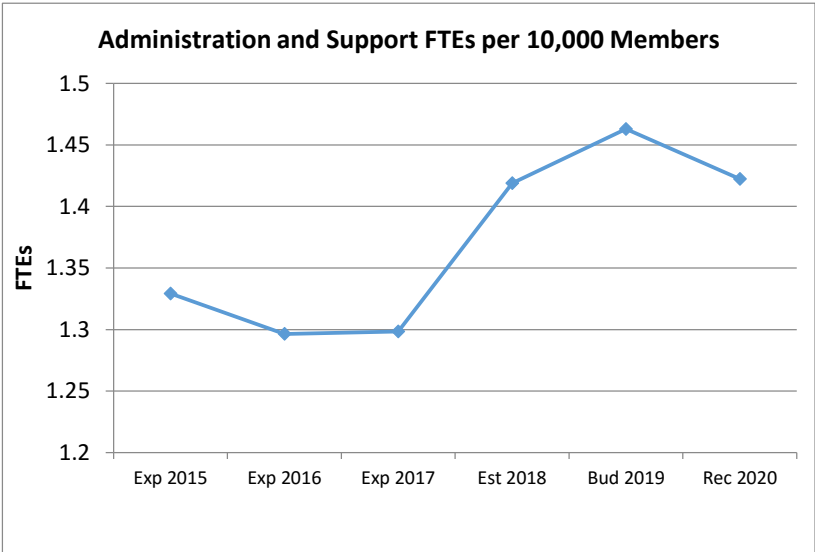
Year Implemented	1936	Performance and/or	Revenue Supported	No
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Moderate	Outsourced Services	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	State Government Administration & Support	

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Operating Costs	\$ 67,166,117	\$ 74,053,320	76.4%
Personnel Costs	\$ 34,075,890	\$ 18,186,111	18.8%
Capital Costs	\$ 13,238,438	\$ 4,724,000	4.9%
Total	\$ 114,480,445	\$ 96,963,431	100.0%

	2020-21 Recommended	% of Total
Appropriated Funds	\$ 96,963,431	100.0%
Non-Appropriated Funds	\$ -	0.0%
Total	\$ 96,963,431	100.0%



Note: All program FTEs are included in the agency's bill pattern.



Summary of Recommendations and Fiscal and Policy Issues

1 Recommendations include \$97.0 million in Pension Trust Funds for the 2020-21 biennium, including maintaining funding for an additional 29.0 FTEs hired in the 2018-19 biennium. Recommendations do not include approximately \$14.5 million in Pension Trust Funds requested for 82.0 additional Administrative Support FTEs in the 2020-21 biennium.

Recommendations also do not include \$8.0 million in Pension Trust Funds requested for renovation of the TRS headquarters building.

2 Texas Government Code §825.101 grants TRS exclusive control over all assets held in trust by the retirement system and all operations funded by trust assets. This includes exemptions from capital budget requirements for projects funded with trust funds. TRS has additional statutory authority and exemptions from other state policies regarding procurement, staff compensation, and information technology. Despite this authority, since FY 2000 the Legislature has appropriated TRS Pension Trust Fund 960 in TRS' bill pattern to manage the TRS pension administrative operations budget, including FTE levels, executive and other staff salaries, and capital projects. In the 2020-21 biennium, TRS requests that this trust fund appropriation be removed from its bill pattern.

3 A 2018 internal audit reviewed procurements for the Health and Insurance Benefits Division and Investment Management Division and found that Board procurement guidance is not consistently followed throughout the contracting process. For example, TRS failed to document how vendors were evaluated, how many bids the agency had received, and justifications for non-competitively bid contracts with no term limits or not-to-exceed amounts. The audit also found that TRS did not have Business Associate Agreements in place with employers of fifteen TRS contract workers, a federal HIPAA violation.

The report recommends that the Procurements and Contracts division (P&C) coordinate with business units to develop procurement plans, timelines, and detailed procedures, and implement a formal process to evaluate whether or not a contract requires a BAA. TRS has indicated it has taken preliminary steps to implement the recommendations and will develop additional trainings, policies, and procedures by September 1, 2019.

4 TRS is currently completing the TRS Enterprise Application Modernization (TEAM) Project, which will replace all major legacy data systems for pension administration, including member records, employer reporting, and financial systems. The final project budget is expected to total \$128.0 million in Pension Trust Funds with a timeline of almost eight years.

Recommended Statutory Changes for Program Improvement

1 The Legislature may consider amending Government Code Section 825.103(d) to remove TRS' statutory exemption from state procurement policy under Government Code Title 10, Subtitle D.

**Challenges and Enhancement Opportunities**

- 1 TRS should implement additional processes and procedures outlined by management in the Vendor Procurement Audit to ensure efficient management of trust fund assets.

**Alternative Funding Options**

- 1 TRS requests an additional \$14.5 million in Pension Trust Funds for 82.0 new support staff to help manage the growing complexity of agency operations and serve a growing member population. Requested positions include 41.0 FTEs for IT, 14.0 for Project Management, 10.0 for Finance, 6.0 for HR, 5.0 for Legal, 3.0 for Internal Audit, 1.0 for Communications, 1.0 for Strategic Initiatives, and 1.0 for Executive Management.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 6: Program and Strategies Crosswalk - House**

<b>Agency Ranking</b>	<b>Program</b>	<b>Strategy</b>
1	Public Education Retirement	1.1.1 TRS - Public Education Retirement
2	Higher Education Retirement	1.1.2 TRS - Higher Education Retirement
		1.2.1 Retiree Health - Statutory Funds
3	Retiree Health Care Benefits (TRS-Care)	1.3.1 Retiree Health - Supplemental Funds
4	Benefit Services	1.1.3 Administrative Operations
5	Investment Management Division	1.1.3 Administrative Operations
9	<i>Support Services and Administration</i>	1.1.3 Administrative Operations

**Note:** Indirect administration program names are italicized.

**Teacher Retirement System**  
**Appendices - House**

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<b>B</b>	Summary of Federal Funds	*
<b>C</b>	FTE Highlights	51
<b>D</b>	Performance Measure Highlights	53
<b>E</b>	Summary of Ten Percent Biennial Base Reduction Options	*

\* Appendix is not included - no significant information to report

Teacher Retirement System  
Funding Changes and Recommendations - House, by Strategy -- Supplemental

Strategy/Fund Type/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments
<b>TRS - PUBLIC EDUCATION RETIREMENT A.1.1</b>	<b>\$3,544,224,289</b>	<b>\$3,747,127,583</b>	<b>\$202,903,294</b>	<b>5.7%</b>	Recommendations provide a state contribution of 6.8 percent of payroll and assume 3.9 percent average annual public education payroll growth in the 2020-21 biennium.
GENERAL REVENUE FUNDS	\$3,544,224,289	\$3,747,127,583	\$202,903,294	5.7%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>TRS - HIGHER EDUCATION RETIREMENT A.1.2</b>	<b>\$417,952,238</b>	<b>\$368,477,887</b>	<b>(\$49,474,351)</b>	<b>(11.8%)</b>	Recommendations provide a state contribution of 6.8 percent of payroll and assume 5.6 percent annual higher education payroll growth in the 2020-21 biennium. Biennial decrease due to early projections indicating significantly lower actual FY 2018 GR/GR-D than reflected in the 2018-19 base. Base amounts have not been updated because FY 2018 GR/GR-D appropriations are not yet final.
GENERAL REVENUE FUNDS	\$324,139,802	\$310,647,710	(\$13,492,092)	(4.2%)	
GR DEDICATED	\$85,551,314	\$48,757,629	(\$36,793,685)	(43.0%)	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$8,261,122	\$9,072,548	\$811,426	9.8%	Recommendations reflect the full biennial benefits costs of 94.0 additional FTEs authorized by the TRS Board but partially unfilled during the 2018-19 biennium. FY 2020-21 levels assume full staffing for these positions.
<b>ADMINISTRATIVE OPERATIONS A.1.3</b>	<b>\$231,596,666</b>	<b>\$243,004,890</b>	<b>\$11,408,224</b>	<b>4.9%</b>	Recommendations reflect the full biennial salary costs of 94.0 additional FTEs authorized by the TRS Board but partially unfilled during the 2018-19 biennium. FY 2020-21 levels assume full staffing for these positions.
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	

Teacher Retirement System  
Funding Changes and Recommendations - House, by Strategy -- Supplemental

Strategy/Fund Type/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$231,596,666	\$243,004,890	\$11,408,224	4.9%	
<b>RETIREE HEALTH - STATUTORY FUNDS A.2.1</b>	<b>\$814,997,636</b>	<b>\$879,359,577</b>	<b>\$64,361,941</b>	<b>7.9%</b>	Recommendations provide a state contribution of 1.25 percent of payroll and assume 3.9 percent average annual public education payroll growth.
GENERAL REVENUE FUNDS	\$814,997,636	\$879,359,577	\$64,361,941	7.9%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>RETIREE HEALTH - SUPPLEMENTAL FUNDS A.3.1</b>	<b>\$394,600,000</b>	<b>\$230,756,971</b>	<b>(\$163,843,029)</b>	<b>(41.5%)</b>	The Eighty-fifth Legislature provided a total of \$394.6 million in additional GR funding for TRS-Care above statutorily required contributions. Recommendations for the 2020-21 biennium include \$230.8 million in Economic Stabilization Funds above statutorily required contributions for TRS-Care to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium.  Note: Strategy is not shown in 2018-19 GAA, but reflects sum-certain supplemental funding appropriated and transferred to the TRS-Care program. Statutory state contributions equal to 1.25 percent of payroll are reflected separately in Strategy A.2.1.
GENERAL REVENUE FUNDS	\$394,600,000	\$0	(\$394,600,000)	(100.0%)	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$230,756,971	\$230,756,971	100.0%	
<b>Total, Goal A, TEACHER RETIREMENT SYSTEM</b>	<b>\$5,403,370,829</b>	<b>\$5,468,726,908</b>	<b>\$65,356,079</b>	<b>1.2%</b>	

Teacher Retirement System  
Funding Changes and Recommendations - House, by Strategy -- Supplemental

Strategy/Fund Type/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments
GENERAL REVENUE FUNDS	\$5,077,961,727	\$4,937,134,870	(\$140,826,857)	(2.8%)	
GR DEDICATED	\$85,551,314	\$48,757,629	(\$36,793,685)	(43.0%)	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$239,857,788	\$482,834,409	\$242,976,621	101.3%	
<b>Grand Total, All Agency</b>	<b>\$5,403,370,829</b>	<b>\$5,468,726,908</b>	<b>\$65,356,079</b>	<b>1.2%</b>	
GENERAL REVENUE FUNDS	\$5,077,961,727	\$4,937,134,870	(\$140,826,857)	(2.8%)	
GR DEDICATED	\$85,551,314	\$48,757,629	(\$36,793,685)	(43.0%)	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$239,857,788	\$482,834,409	\$242,976,621	101.3%	



**Teacher Retirement System  
FTE Highlights - House**

<b>Full-Time-Equivalent Positions</b>	<b>Expended 2017</b>	<b>Estimated 2018</b>	<b>Budgeted 2019</b>	<b>Recommended 2020</b>	<b>Recommended 2021</b>
Cap	503.3	524.3	524.3	618.3	618.3
Actual/Budgeted	496.0	513.2	574.3	NA	NA

<b>Schedule of Exempt Positions (Cap)</b>					
Executive Director	\$327,443	\$337,266	\$337,266	\$337,266	\$337,266
Deputy Director Investment Officer	\$340,000	\$357,000	\$357,000	\$357,000	\$357,000
Chief Investment Officer	\$551,250	\$551,250	\$551,250	\$551,250	\$551,250
Investment Fund Director	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000
Investment Fund Director	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000
Investment Fund Director	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Investment Fund Director	\$330,000	\$330,000	\$330,000	\$330,000	\$330,000
Investment Fund Director	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000

**Notes:**

- a) Recommendations for the 2020-21 biennium include 94.0 additional FTEs approved by fiduciary finding of the TRS board in the 2018-19 biennium. Recommendations do not include funding or authority for 127.0 additional FTEs TRS requests in 2020-21.
- b) Government Code §825.208 and Rider 8 of the TRS bill pattern authorize the Board to set the salaries of exempt positions without limitation. The State Auditor's Office Report, Executive Compensation at State Agencies (Report 18-705, August 2018), indicates a market average salary of \$308,196 for the Executive Director position.

**Teacher Retirement System  
FTE Highlights - House**

**Appendix C**

c) Rider 15 in the 2018-19 General Appropriations Act (GAA), "Enterprise Application Modernization FTE Exemption," allows FTEs assigned to the TEAM project to be exempt for reporting purposes from the FTE cap established in Article IX, §6.10, and specifies Legislative intent that the limit will apply to all FTEs and contractors once TEAM is implemented. Recommendations delete this rider for the 2020-21 biennium.

d) In FY 2019, TRS adopted an internal operating budget including 94.0 additional FTEs above the GAA limitation. The 50.0 FTE increase shown reflects ongoing hiring of those positions throughout FY 2019.

e) TRS requests a new rider in the 2020-21 biennium granting the agency explicit authority to increase FTE levels during the biennium through a fiduciary finding of the Board, with reporting requirements to the Governor and LBB.

**Teacher Retirement System**  
**Performance Measure Highlights - House**

	Expended 2017	Estimated 2018	Budgeted 2019	Recommended 2020	Recommended 2021
<ul style="list-style-type: none"> <li>Number of Years to Amortize TRS Retirement Fund Unfunded Actuarially Accrued Liability</li> </ul>	32.2	87.0	86.0	31.0	31.0
<p><i>Measure Explanation: Measure shows the time required for contributions and other revenues, including investment earnings, to pay off the unfunded actuarially accrued liability. Actuarially sound is statutorily defined as an amortization period of less than 31 years.</i></p>					
<ul style="list-style-type: none"> <li>Service Level Percentage of Calls Answered in Specified Time Interval</li> </ul>	69.0%	11.0%	56.0%	79.0%	80.0%
<p><i>Measure Explanation: Measure shows percentage of calls answered within three minutes. High call volume in FY 2018 following changes to the TRS-Care program significantly increased call hold and handle times. TRS Board approved 43.0 additional Benefits Services staff above the GAA FTE limitation for the 2018-19 biennium to reduce call wait times.</i></p>					





# House Appropriations Committee

## Brian Guthrie, Executive Director, TRS

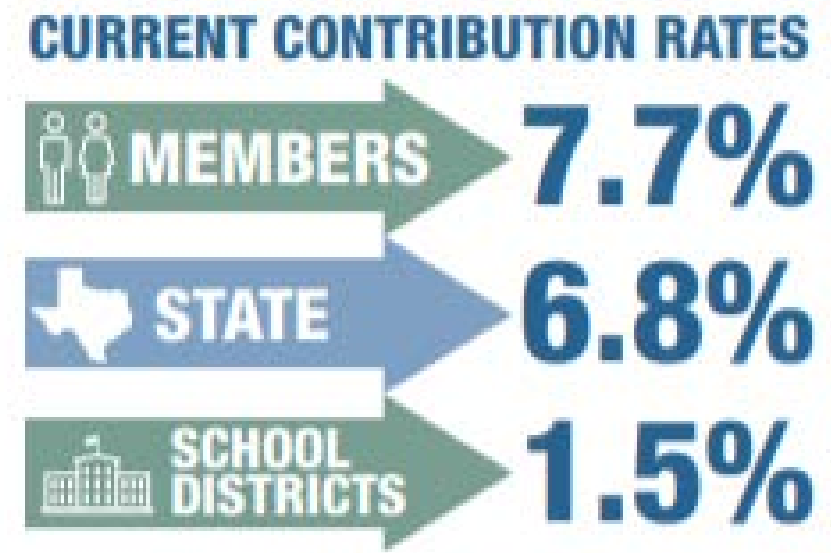


February 20, 2019



# TRS Overview

- The Teacher Retirement System manages a \$154.6 billion trust fund and provides pension and health care benefits. TRS serves 1.6 million active and retired members. One of every 20 Texans is a member of TRS.
- The average monthly annuity is \$2,060 per month with \$9.8 billion paid in retirement benefits in FY 2018.
- Active members contribute 7.7%\* of salary
- The State of Texas contributes 6.8%\* of salary
- Non-Social Security districts contribute 1.5% of salary
  - 96% of public school districts do not participate in Social Security and do not contribute 6.2% of payroll to Social Security.



\*Constitution sets limits between 6% and 10%

# Trust Fund Status

- The TRS pension trust fund's FY 2018 rate of return was 8.2%. The pension trust fund earned a return of 12.6% in FY 2017 and 7.4% in FY 2016.
- The Board of Trustees recently changed the assumption set to:
  - Decrease the long term rate of return from 8.0% to 7.25%
  - Decrease inflation from 2.5% to 2.3%
  - Include payroll growth of 3.0% (inflation + 0.7%)
  - Lower retirement probabilities (members waiting longer to retire)
  - Increase life expectancy slightly

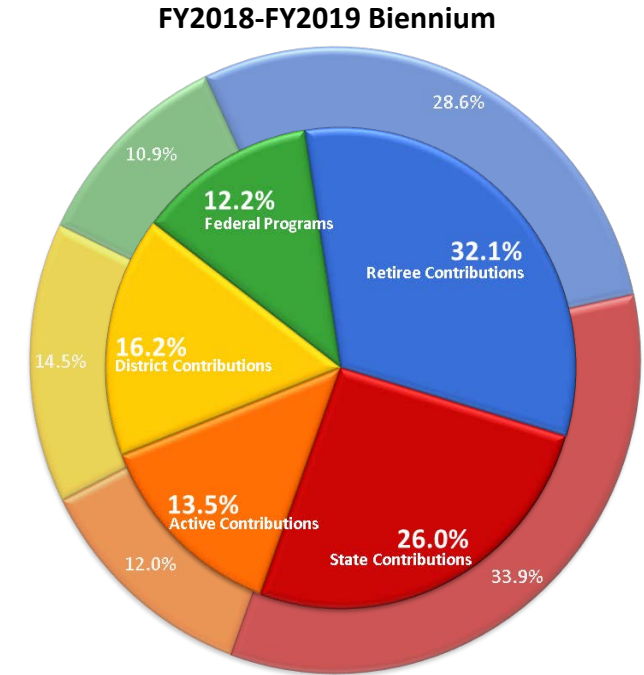
TRS Investment Performance (ending 8/31)							
Period	25-Year	20-Year	15-Year	10-Year	5-Year	3-Year	1-Year
Return	8.0%	7.0%	7.7%	7.1%	8.8%	9.4%	8.2%

# Trust Fund Status

TRS Trust Fund Valuation	8/31/2018	8/31/2017
Unfunded Actuarial Accrued Liability (UAAL)	\$46.2 billion	\$35.5 billion
Funded Ratio	76.9%	80.5%
State Contribution Rate	6.8%	6.8%
District Contribution Rate <i>(applicable only to districts that do not contribute to Social Security)</i>	1.5%	1.5%
Member Contribution Rate	7.7%	7.7%
Funding period (years)	87 years	32 years
Immediate Increase in Contribution Rate needed to attain 30-year funding period	1.82%	0.15%

# TRS-Care

- The TRS-Care program was created in 1985 with coverage beginning September 1, 1986 and operates through a separate trust fund. TRS-Care is funded on a pay-as-you-go basis and is subject to change based on available funding.
- The program is funded through contributions:
  - The State contributes 1.25% of active employee payroll.
  - Districts contribute 0.75% of active employee payroll.
  - Active employees contribute 0.65% of their payroll.
  - Retiree premiums.
  - Other contributions include Retiree Drug Subsidy (RDS), Medicare Part D subsidies and Investment Income.



- The inner pie chart represents the distribution of statutory funding.
- The outer ring represents the distribution when supplemental funding is included.
- Historically, the State has funded the shortfall between expenses and revenues.



# Challenges for TRS-Care

- Long-term funding based on percentages of active employee payroll and not health care costs for retirees.
- At the direction of the Legislature, retiree premiums and plan designs were frozen from 2005-2017.
- During the 85<sup>th</sup> legislature, the shortfall was projected to be from \$1.06 to \$1.3 billion. The following biennium shortfall was expected to range from \$4 to \$6 billion.
- Major plan design and/or funding changes had to occur in the 85th Legislative Session.
- Non-Medicare retirees cost more than Medicare-eligible participants.

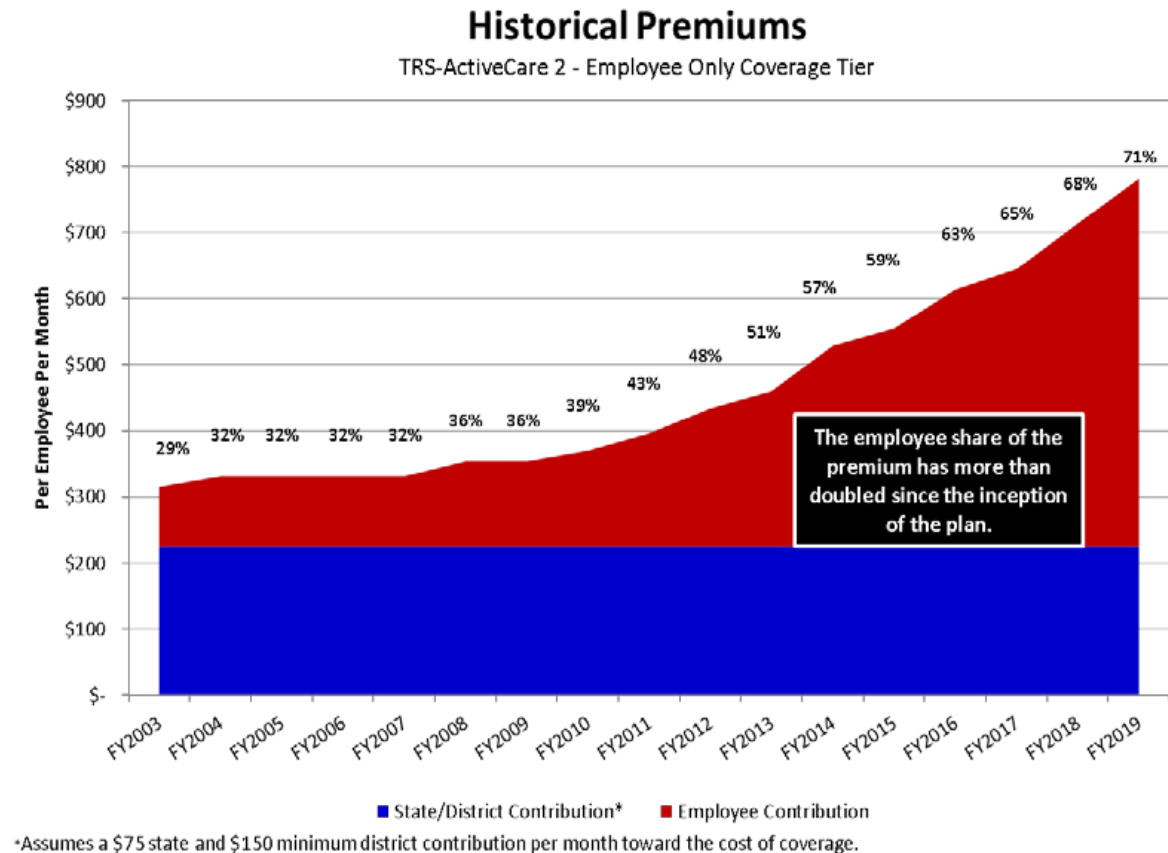
**Without legislative changes and additional funding,  
the program would have become unsustainable.  
FY 20/21 shortfall is projected to be approximately \$231 million.\***

\*TRS-Care projection will be updated throughout the legislative session based on plan experience.

# TRS-ActiveCare

- The TRS-ActiveCare program provides health benefits for active public education employees and their dependents and operates through a separate trust fund.
- The TRS Board of Trustees sets premium and plan designs yearly based on available funding and experience.
- Funding is based on a fixed dollar amount per employee per month rather than actual health care costs. The program is funded through contributions:
  - State contributes \$75 per employee per month through school finance formulas.
  - Districts contribute a minimum of \$150 per employee per month (some contribute more).
  - Employees contribute the remainder of project gross premiums.

**Minimum state and district contribution have not changed since plan inception in FY 2002.**



# TRS Funding 2020-2021

## INTRODUCED HOUSE BILL

### Pension State Contribution

- Continues 6.8% statutory state contribution rate
- Public Education: \$3.7 billion
  - Based on 3.9% salary growth
- Higher Education: \$368.5 million
  - Based on 5.6% salary growth

### TRS-Care Contribution

- Continues 1.25% statutory state contribution rate
- Estimated to be \$879.4million using 3.9% salary growth
- SB 1 includes \$231 million for TRS-Care solvency paid through the ESF.

The bill also includes funding needs relating to TRS administrative operations which require no general revenue funding. Administrative operations are funded with pension assets.

# TRS Funding 2020-2021

- In order for the TRS pension fund to be actuarially sound, a 1.82%\* increase in the contribution rate would be required to lower the funding period to 30 years.
  - The 1.82%\* increase would require an estimated additional \$1.6 billion for the biennium.
- In order to sustain the TRS-Care program, \$231 million\* for the biennium for TRS-Care solvency is requested. This amount is subject to change with plan experience.
- TRS is requesting a rider seeking relief and flexibility on FTE authority to restore and improve customer service and reduce investment fees. Administrative operations do not receive general revenue.

\* Numbers will be updated throughout the legislative session.

# TRS Administrative Budget

- The Board of Trustees, as fiduciaries, is responsible for the administration of the system under provisions of the state constitution and laws. The Board is composed of nine trustees appointed by the Governor. **TRS administration is funded exclusively by the pension trust fund held outside the state treasury and no general revenue is used to fund TRS operations.**
- The Board approved a plan to improve customer services to TRS members and a strategy to reduce investment fees. However, TRS is constrained in the appropriations bill through a cap on the number of FTE's while the Board has the authority to approve positions. Additional resources will allow **TRS to improve member services and save over \$1.4 billion in investment fees.**

**TRS is requesting a rider to seek relief and flexibility to successfully accomplish critical initiatives adopted by the TRS Board of Trustees.**

**The request requires no General Revenue funding.**

# Restore and Improve Customer Service

- Improving the Customer Experience is a multi-biennial initiative focused on addressing TRS' extraordinary member services challenges.
- TRS is experiencing historic call volumes, **excessive hold times**, and **months long waits** to meet with a benefit counselor. **The status quo is unacceptable.** In order to return to expected service levels, additional staff will be needed to manage the volume of customer service interactions, increase capacity for counseling services and expand service channel options.
  - Membership growth of 60% since the year 2000.
  - Five tiers of membership Year over year call volume is up 37%.
  - Greater than 700,000 calls expected annually.
  - E-mail traffic is up over 72%.
  - Average hold time has increased to over 23 minutes.
  - Average handle time has grown from 10 to 30 minutes.
  - Core processing volume has grown 15% annually since 2010.

# TRS Reducing Investment Fees

- As the **13th largest pension fund in the world**, TRS aims to become a best-in-class global investment management fund.
- TRS' unique strengths such as trust fund size, long-term time horizon, and superior governance structure will allow the in-house investment team to produce superior returns.
- Increasing internal management and principal investment capabilities will allow TRS to reduce fees by **\$1.4 billion** or more for investments made over the next five years.

# APPENDIX



# TRS Overview

- Created in 1936 by Constitutional amendment (enabling legislation in 1937) and established by Article XVI, Section 67, Texas Constitution.
- Mission:
  - **to deliver retirement and related benefits** authorized by law for members and their beneficiaries; and
  - **to prudently invest and manage the assets** held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.
- To comply with fiduciary standards:  
**Monies held in trust must be used exclusively for the benefit of TRS members. The Board of Trustees act as Fiduciaries.**
- **Nine-member Board appointed by Governor:** The Board of Trustees is responsible for the administration of the system under provisions of the state constitution and laws. The board is composed of nine trustees appointed to staggered terms of six years.

# TRS Board of Trustees

Jarvis V. Hollingsworth, Chairman

Missouri City, term ends 2023

Direct appointment

Dolores Ramirez, Vice Chair

San Benito, term ends 2019

Active member nominated

Joe Colonna

Dallas, term ends 2019

Direct appointment

David Corpus

Humble, term ends 2019

SBOE nominated

John Elliott

Austin, term ends 2021

Direct appointment



*Top (left to right): Jarvis V. Hollingsworth; Dolores Ramirez; Joe Colonna;*

*Bottom (left to right); David Corpus; John Elliott*

# TRS Board of Trustees

## Dr. Greg Gibson

Schertz, term ends 2021

Active member nominated

## Christopher Moss

Lufkin, term ends 2021

SBOE nominated

## Dick Nance

Hallettsville, term ends 2023

Retiree nominated

## Nanette Sissney

Whitesboro, term ends 2023

At-Large nominated



*Top (left to right): Dr. Greg Gibson; Christopher Moss*

*Bottom (left to right): Dick Nance; Nanette Sissney*

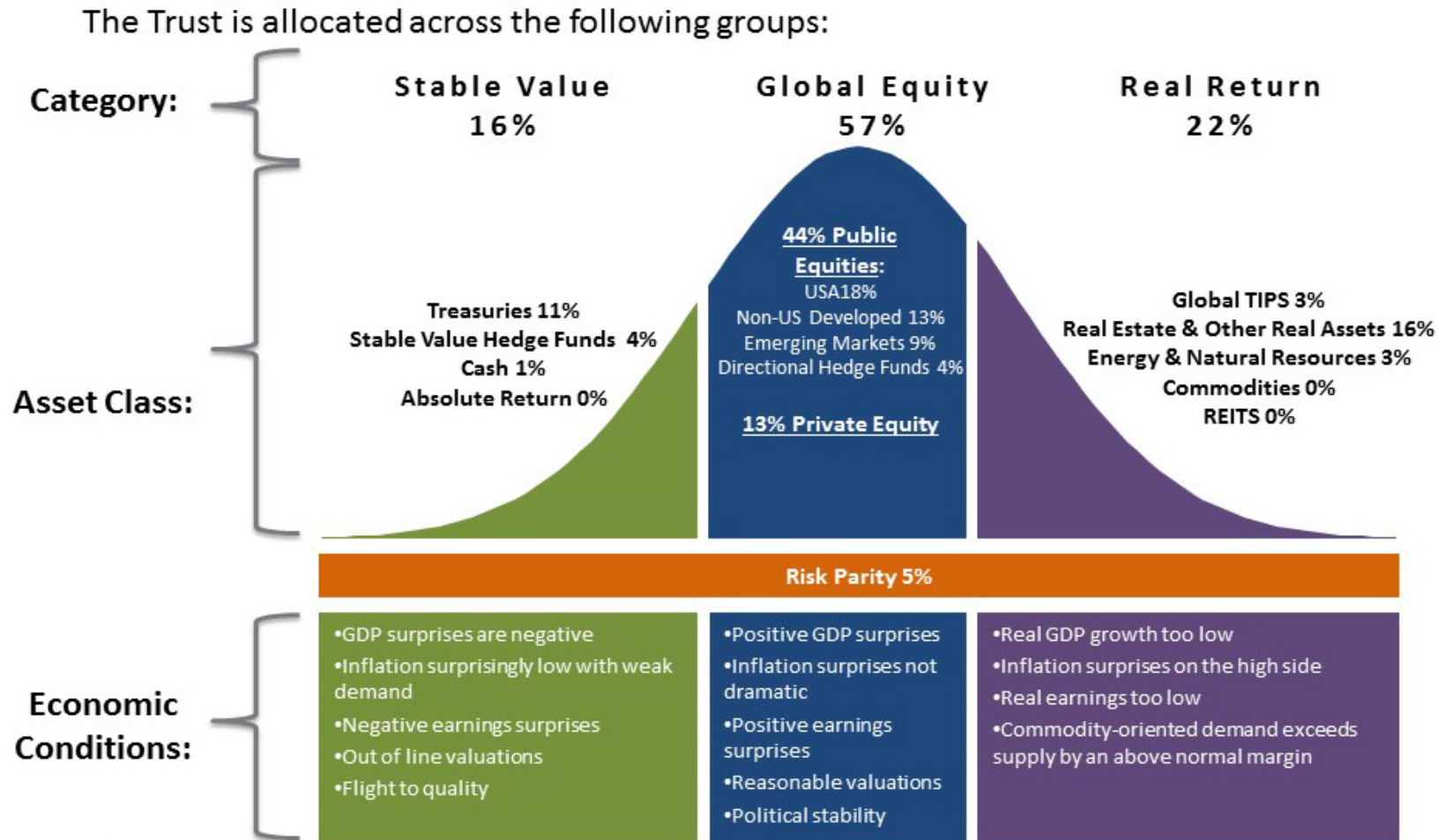
# Pension Benefit Design Study

TRS recently updated the Pension Benefit Design Study which concluded that the current defined benefit plan provides current benefits at a lower cost than alternative plans.

Major findings from the study are as follows:

- A total of 96% of public school employees do not participate in Social Security.
- The current defined benefit plan provides current benefits at a lower cost than alternative plans.
- Moving new hires to an alternative plan will not eliminate existing liabilities.
- A contribution rate increase of 1.82% beginning in fiscal year 2020 will lower the funding period to 30 years.
- A phased-in contribution rate increase of 2% beginning in fiscal year 2021 will lower the funding period to 31 years.
- Combined employee and employer contribution rates for TRS are the lowest in the nation among teacher plans.
- The value of the retirement benefit available to TRS members is 30% less than the average benefits available to members of peer systems.
- Active members have borne approximately 70% of plan changes since 2005.
- All plan structure carry differing levels of risk. When examining important aspects of pension plan design, the current defined benefit plan places more risk with the State and generally offers more favorable outcomes for TRS members.
- The majority of TRS members will do significantly worse investing on their own in a plan with a defined contribution component.

# Portfolio Allocation



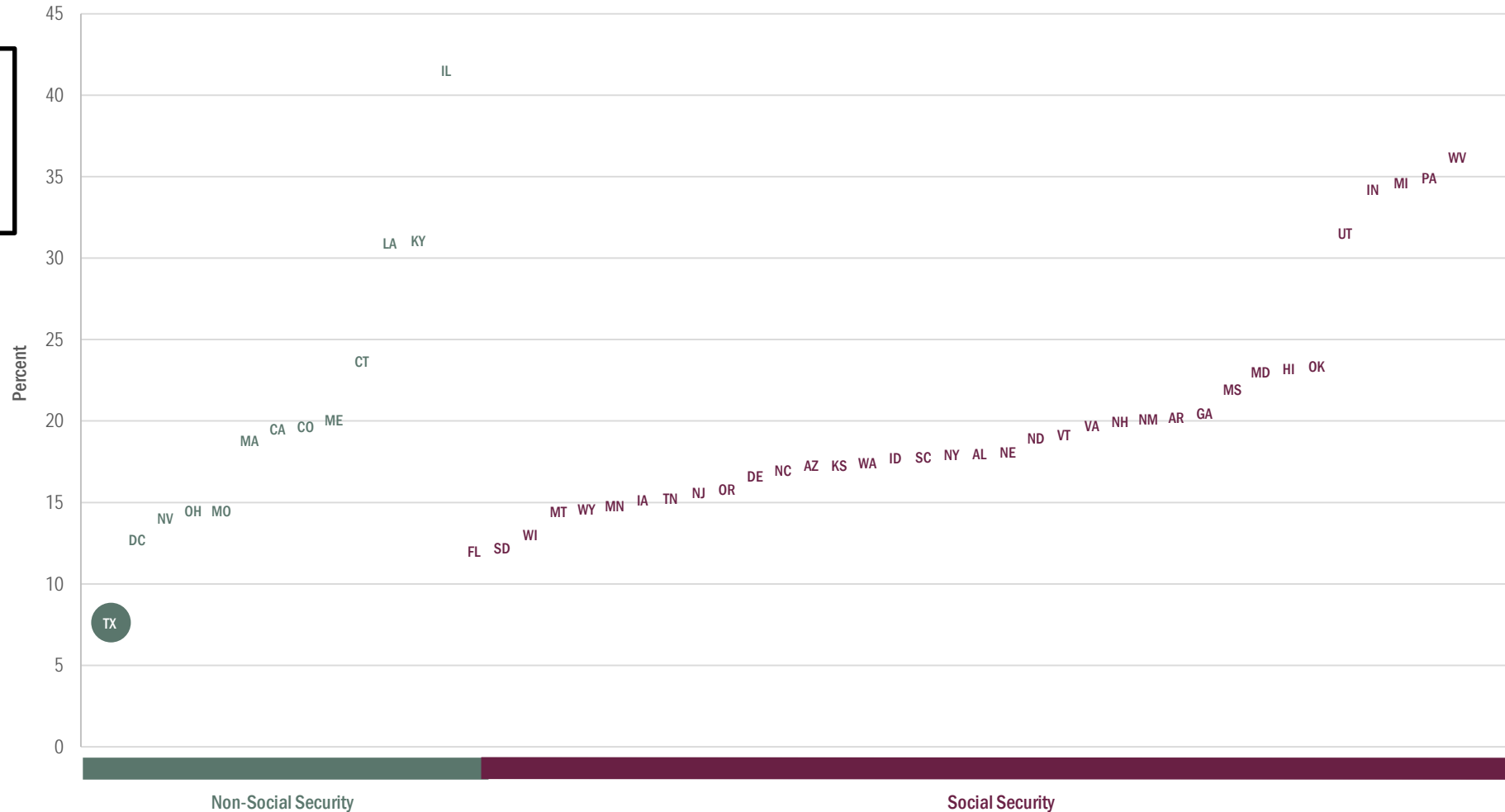
Asset allocation will be evaluated in 2019.

# 2018 Experience Study

- Section 825.206, Government Code requires the TRS Board of Trustees to designate an actuary (currently GRS) to conduct an experience study to review all actuarial assumptions. An actuarial audit must be performed in conjunction with the experience study at least once every five years. Last experience study conducted in 2015.
- In determining liabilities and contribution rates for retirement plans, actuaries must make assumptions about the future. Among the assumptions that must be made include: retirement rates, mortality rates, turnover rates, disability rates, investment return rate, salary increase rates, inflation rate.
- As a result of the 2018 Experience Study, the TRS Board of Trustees voted to:
  - Decrease the long term rate of return from 8.0% to 7.25%.
  - Decrease inflation from 2.5% to 2.3%.
  - Include payroll growth of 3.0% (inflation + 0.7%).
  - Lower retirement probabilities (members waiting longer to retire).
  - Increase life expectancy slightly.

# Peer Employer Contribution Rates by State: Teachers Plans

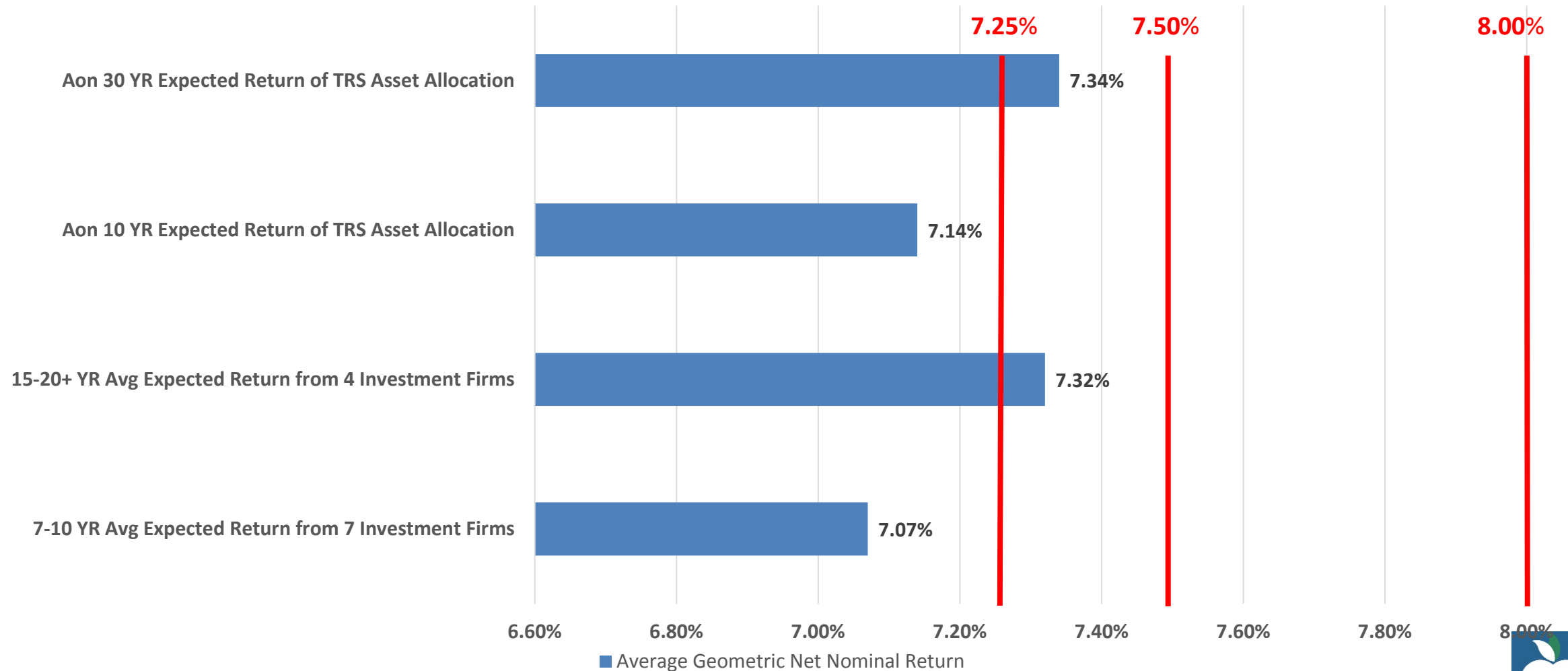
Source: NASRA  
Public Funds  
Survey 2017



Data reflects available contribution rates for statewide teacher pension plans. Rates shown reflect actual contributions paid by employers as a percentage of the plan's payroll base, as reported in system annual financial reports. Some plans have multiple rates for different benefits tiers; in those cases, rates reflect weighted average rates as calculated by NASRA.

# Summary of Investment Return Scenarios

## Expected Rate of Return Summary





# TRS-Care Funding Projection as of August 2018

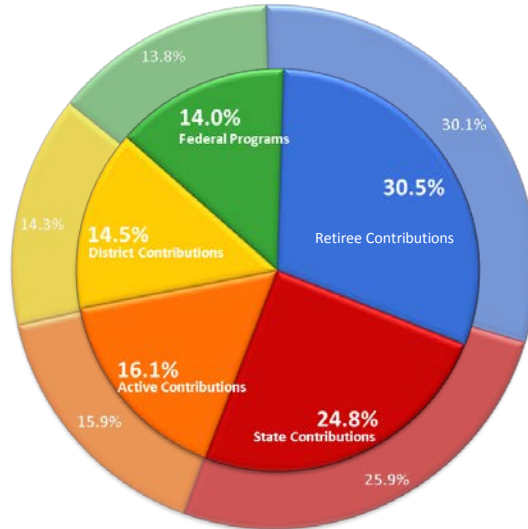
Fiscal Year	Contributions							Expenditures				Ending Balance (Incurred Basis)
	Retiree Contributions	State Contributions	Supplemental Appropriations	Active Employee Contributions	District Contributions	Investment Income	CMS, Part D and ERBP Subsidies	Medical Incurred	Drug Incurred	Medicare Advantage Premiums	Administrative Costs	
FY 1986	\$0	\$0	\$250,000	\$17,625,194	\$0	\$572,153	\$0	\$0	\$0	\$0	\$362,371	\$18,084,976
FY 1987	\$22,617,624	\$25,931,680	\$0	\$18,522,629	\$0	\$2,568,998	\$0	\$50,988,845	\$7,044,825	\$0	\$3,941,936	\$25,750,301
FY 1988	\$23,948,600	\$31,357,632	\$0	\$19,598,520	\$0	\$5,703,832	\$0	\$16,157,649	\$12,441,672	\$0	\$4,614,755	\$73,144,809
FY 1989	\$25,428,632	\$37,420,711	\$0	\$20,789,215	\$0	\$8,802,914	\$0	\$32,926,324	\$15,458,710	\$0	\$5,212,073	\$111,989,174
FY 1990	\$37,556,561	\$44,369,915	\$0	\$22,184,958	\$0	\$13,098,835	\$0	\$50,171,919	\$19,835,965	\$0	\$7,186,851	\$152,004,708
FY 1991	\$46,563,787	\$47,277,743	\$0	\$23,638,871	\$0	\$15,801,047	\$0	\$82,697,189	\$28,683,081	\$0	\$8,258,029	\$165,647,857
FY 1992	\$56,395,797	\$50,392,512	\$0	\$25,196,592	\$0	\$17,314,372	\$0	\$74,307,953	\$33,829,694	\$0	\$8,862,560	\$197,946,923
FY 1993	\$65,154,653	\$54,029,406	\$0	\$27,014,703	\$0	\$17,181,190	\$0	\$101,627,864	\$40,700,513	\$0	\$10,067,359	\$208,931,140
FY 1994	\$80,128,944	\$56,912,083	\$0	\$28,456,041	\$0	\$16,467,438	\$0	\$108,284,693	\$45,712,060	\$0	\$11,668,828	\$225,230,065
FY 1995	\$89,006,331	\$59,849,850	\$0	\$29,924,925	\$0	\$16,841,673	\$0	\$122,054,551	\$50,782,093	\$0	\$12,219,847	\$235,796,353
FY 1996	\$82,622,236	\$63,634,087	\$0	\$31,817,043	\$0	\$16,818,747	\$0	\$135,982,304	\$57,074,921	\$0	\$13,593,578	\$224,037,663
FY 1997	\$87,657,784	\$67,616,395	\$0	\$33,808,197	\$0	\$16,202,440	\$0	\$148,823,489	\$62,530,982	\$0	\$14,097,454	\$203,870,554
FY 1998	\$91,390,173	\$72,210,190	\$0	\$36,105,095	\$0	\$15,260,517	\$0	\$156,537,913	\$76,256,158	\$0	\$14,616,678	\$171,425,780
FY 1999	\$96,474,107	\$76,488,424	\$0	\$38,244,213	\$0	\$9,762,741	\$0	\$184,398,533	\$93,459,890	\$0	\$14,905,196	\$99,631,646
FY 2000	\$120,227,960	\$85,505,637	\$0	\$42,738,069	\$0	\$6,923,485	\$0	\$203,029,971	\$6,923,485	\$0	\$16,837,127	\$24,256,451
FY 2001	\$131,213,445	\$90,118,787	\$76,281,781	\$45,059,394	\$0	\$5,824,134	\$0	\$250,691,898	\$139,774,848	\$0	\$18,237,767	(\$35,950,521)
FY 2002	\$143,797,748	\$94,792,026	\$285,515,036	\$47,378,092	\$0	\$7,140,560	\$0	\$287,729,918	\$163,979,754	\$0	\$19,017,292	\$71,945,978
FY 2003	\$162,954,010	\$98,340,798	\$124,661,063	\$49,170,399	\$0	\$3,394,956	\$0	\$368,462,963	\$203,281,400	\$0	\$21,690,329	(\$82,967,487)
FY 2004	\$248,552,679	\$198,594,194	\$298,197,463	\$99,297,097	\$79,457,387	\$4,840,982	\$0	\$366,840,457	\$214,514,500	\$0	\$26,332,200	\$238,835,158
FY 2005	\$322,780,191	\$202,397,566	\$64,172,167	\$101,198,783	\$80,914,228	\$11,300,868	\$0	\$431,036,095	\$229,522,988	\$0	\$33,333,010	\$327,156,868
FY 2006	\$326,844,982	\$215,666,940	\$0	\$140,183,511	\$118,607,527	\$21,435,792	\$34,611,607	\$427,553,404	\$259,532,887	\$0	\$34,434,969	\$462,985,967
FY 2007	\$323,957,945	\$238,190,720	\$0	\$154,823,968	\$136,008,512	\$32,671,539	\$52,329,617	\$437,519,747	\$304,773,401	\$0	\$35,878,194	\$622,796,927
FY 2008	\$328,505,433	\$254,722,174	\$0	\$165,569,413	\$141,672,630	\$29,252,347	\$59,486,239	\$498,767,038	\$334,742,500	\$0	\$39,656,301	\$728,839,324
FY 2009	\$329,723,191	\$267,471,299	\$0	\$173,856,344	\$149,562,613	\$17,482,143	\$61,530,735	\$531,239,020	\$353,893,845	\$0	\$43,184,393	\$800,148,391
FY 2010	\$332,481,933	\$279,250,547	\$0	\$181,512,856	\$155,918,241	\$11,679,229	\$70,795,686	\$575,539,788	\$395,817,017	\$0	\$45,465,776	\$814,964,302
FY 2011	\$345,164,271	\$282,782,431	\$0	\$183,808,580	\$158,724,010	\$8,168,640	\$136,887,805	\$608,461,321	\$384,017,059	\$0	\$47,151,354	\$890,870,304
FY 2012	\$363,348,030	\$271,925,242	\$0	\$176,751,407	\$154,607,926	\$5,189,934	\$68,633,946	\$687,987,585	\$454,143,825	\$0	\$48,181,723	\$741,013,656
FY 2013	\$355,685,504	\$139,213,557	\$102,363,704	\$180,824,522	\$160,952,396	\$3,041,001	\$98,628,841	\$496,229,923	\$1,075,388	\$47,048,587	\$551,048,281	\$551,048,281
FY 2014	\$363,631,292	\$290,775,235	\$36,058,148	\$189,003,903	\$169,847,447	\$2,061,745	\$135,536,021	\$663,776,623	\$539,842,962	\$27,507,107	\$48,894,894	\$457,940,487
FY 2015	\$369,066,459	\$304,917,343	\$768,100,754	\$198,196,273	\$179,157,485	\$1,495,680	\$200,321,166	\$746,668,738	\$649,457,501	\$59,000,080	\$51,150,088	\$972,919,240
FY 2016	\$374,736,269	\$320,895,370	\$0	\$208,581,991	\$189,111,901	\$5,421,446	\$198,315,301	\$789,756,266	\$716,536,786	\$69,228,872	\$52,973,441	\$641,486,153
FY 2017	\$373,229,610	\$328,063,352	\$15,559,552	\$213,241,179	\$191,057,800	\$5,225,993	\$195,396,219	\$746,038,376	\$51,885,874	\$61,792,672	\$51,885,051	\$368,737,886
FY 2018	\$488,069,004	\$425,625,726	\$394,600,000	\$221,325,377	\$266,061,322	\$10,930,281	\$183,159,406	\$719,764,457	\$669,082,906	\$120,656,126	\$50,430,879	\$798,574,633
FY 2019	\$552,408,188	\$438,394,498	\$0	\$227,965,139	\$273,300,880	\$2,959,405	\$186,893,164	\$851,938,045	\$943,948,105	\$93,775,150	\$46,981,388	\$543,853,219
FY 2020	\$563,469,441	\$451,546,332	\$0	\$234,804,093	\$281,191,981	\$2,005,095	\$212,993,697	\$845,816,337	\$1,038,902,783	\$115,451,033	\$47,503,513	\$242,190,194
FY 2021	\$573,682,690	\$460,577,259	\$0	\$239,500,175	\$286,610,537	\$518,604	\$240,659,737	\$885,579,772	\$1,185,324,391	\$155,524,780	\$48,067,223	(\$230,756,971)
FY 2022	\$586,817,051	\$469,788,804	\$0	\$244,290,178	\$292,137,464	\$0	\$270,996,956	\$919,087,023	\$1,345,750,414	\$176,027,936	\$48,606,660	(\$856,198,552)
FY 2023	\$598,356,684	\$479,184,580	\$0	\$249,175,982	\$297,774,930	\$0	\$304,101,064	\$951,579,432	\$1,520,513,286	\$198,501,507	\$49,169,418	(\$1,647,368,953)

## NOTES

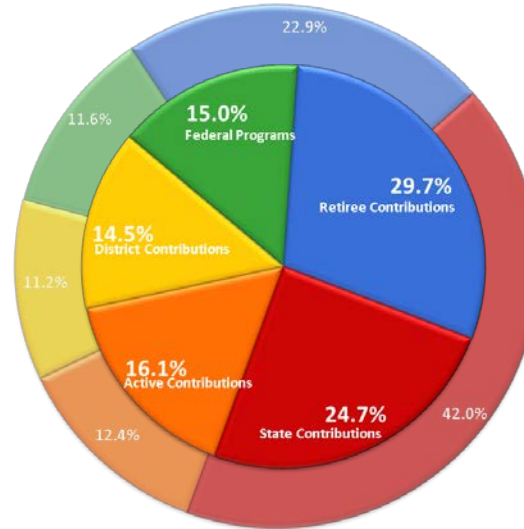
- Invoice data through August 31, 2018
- This purpose of this report is to project revenue and expenses on an incurred basis and should not be used as a projection of cash flow. Cash flow projections are usually less than incurred primarily due to a delay in receipt of federal subsidies.
- State Contribution rate of 1.25%; District Contribution rate of 0.75%; and Active Contribution rate of 0.65% beginning 9/1/2017.
- Medical trends: 6.50% in FY2019; reduced by 0.25 each year thereafter.
- Pharmacy trends: 10.25% in FY2019; reduced by 0.25 each year thereafter.
- 3.0% payroll growth in FY2019 and FY2020; 2% increase in payroll growth thereafter.
- Enrollment assumptions based on headcounts assumed in annual Other Post Employment Benefits (OPEB) valuation report.
- The impact of the Excise ("Cadillac") Tax, which is anticipated to become effective on 1/1/2022, have not been taken into account for FY2022 and beyond.

# Distribution of Statutory Revenues by Biennium

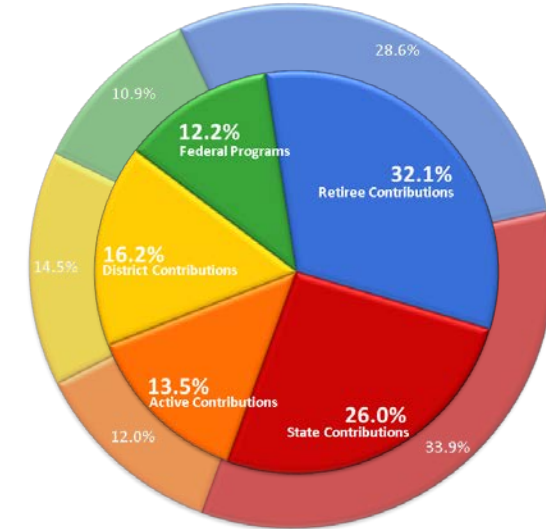
FY2014-FY2015 Biennium



FY2016-FY2017 Biennium



FY2018-FY2019 Biennium



	FY2014-FY2015	FY2016-FY2017	Projected <sup>1</sup> FY2018-FY2019
Total Statutory Funding	\$2,404,010,050	\$2,634,074,532	\$3,275,793,719
Total State Supplemental Funding	\$36,058,148	\$783,660,306	\$394,600,000
Total Revenue	\$2,440,068,198	\$3,417,734,837	\$3,670,393,719
Total Expenses	\$2,786,297,995	\$3,223,017,337	\$3,640,475,267

- The inner pie chart represents the distribution of statutory funding.
- The outer ring represents the distribution when supplemental funding is included.
- Historically, the State has funded the shortfall between expenses and revenues.

<sup>1</sup> FY2018-FY2019 biennium is projected as of June 30, 2018.

# TRS-Care Enrollment

August 2018					
Medicare Status	Relationship to Insured	HDHP Plan	Medicare Advantage Plan	Alternative Medical	Total
Medicare A&B	Retirees	14	132,351	0	132,365
	Dependents	0	23,128	0	23,128
Medicare A Only	Retirees	4	0	1,755	1,759
	Dependents	0	0	129	129
Medicare B Only	Retirees	0	5,869	466	6,335
	Dependents	0	108	29	137
Non-Medicare	Retirees	49,837	0	761	50,598
	Dependents	18,068	0	76	18,144
<b>Total</b>		<b>67,923</b>	<b>161,456</b>	<b>3,216</b>	<b>232,595</b>



# 2019 TRS-Care Premiums

## Monthly Premiums for Retirees without Medicare

Retiree only	\$200
Retiree + spouse	\$689
Retiree + child(ren)	\$408
Retiree + family	\$999

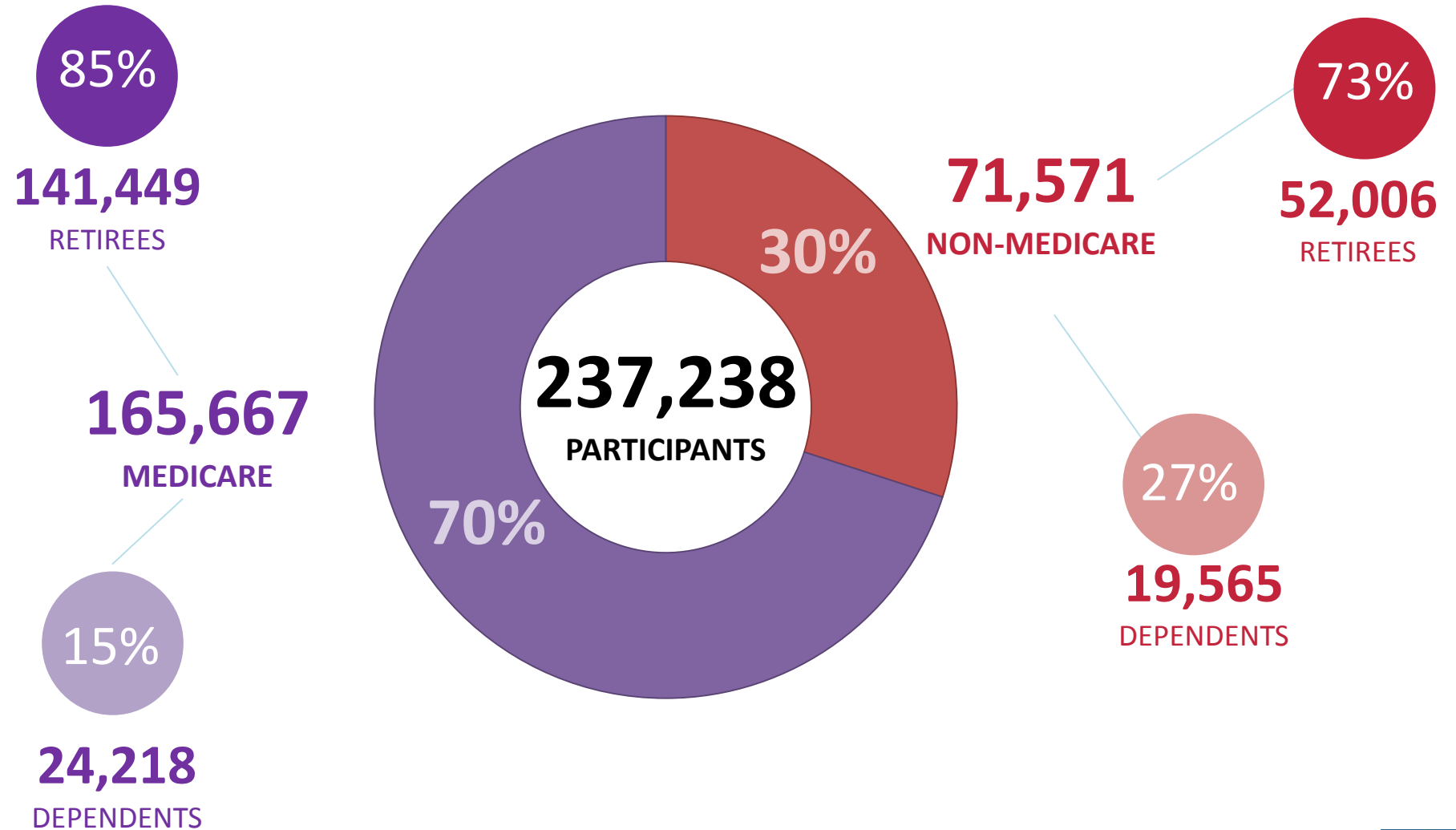
## Monthly Premiums for Retirees with Medicare

Retiree only	\$135
Retiree + spouse	\$529
Retiree + child(ren)	\$468
Retiree + family	\$1,020

- Premiums are determined by the retiree's Medicare status, regardless of their dependents' Medicare status.
- Premiums for retirees without Medicare who retired due to a disability before Jan. 1, 2017 are reduced by \$200.
- Premiums for retirees with disabled children (regardless of the disabled child's age) are reduced by \$200 in tiers with covered children.

# TRS-Care Implementation: 2018 Enrollment

More than **85%** of the 270,000 members stayed enrolled in TRS-Care.



# TRS-Care Implementation: Disenrollments

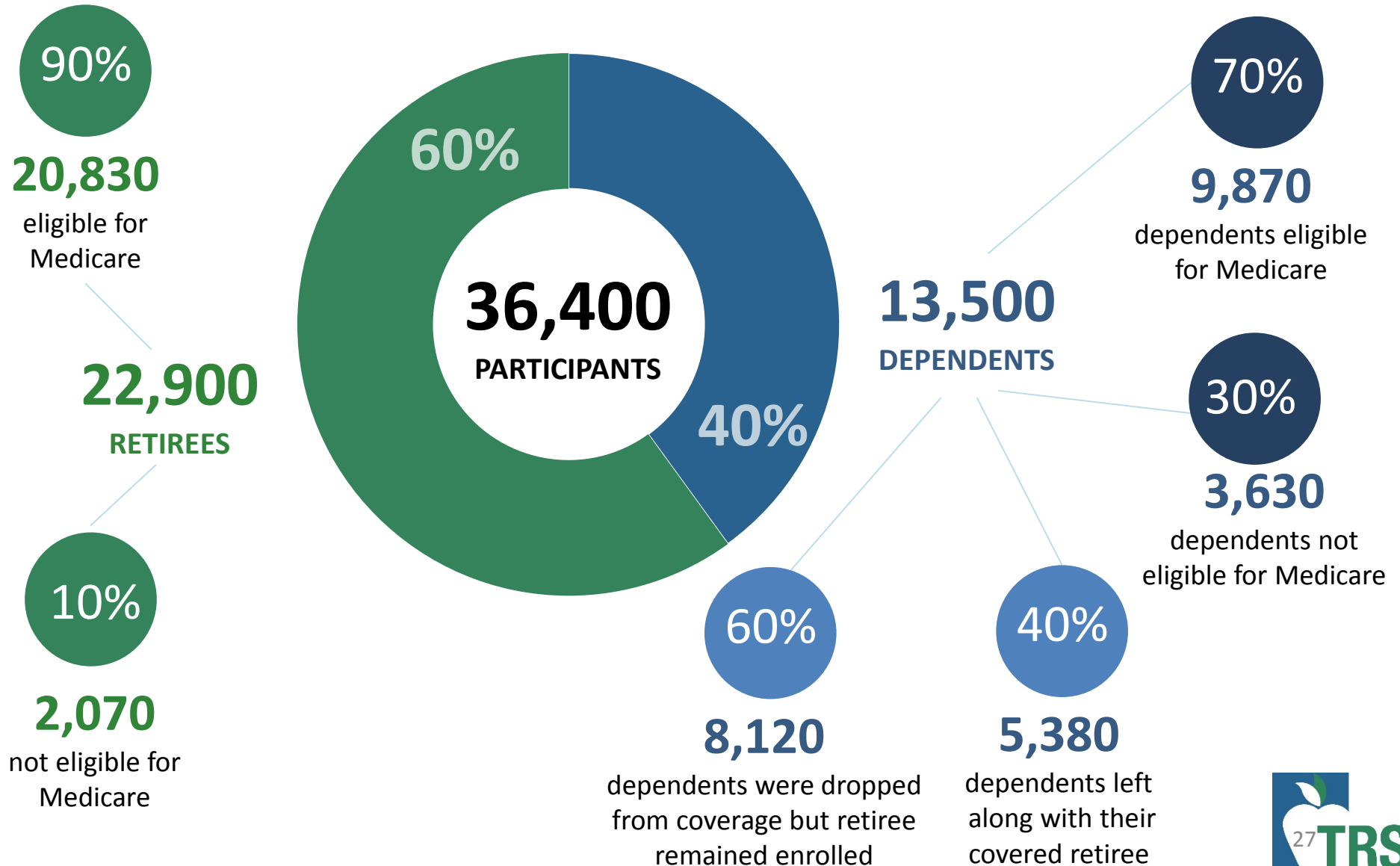
28,450 participants chose to leave TRS-Care between September 1, 2017 and January 1, 2018

7,950 terminated effective February 1 or March 1, 2018

**10,040**

**WERE IN TRS-CARE 1**

This represents 28% of all participants who left TRS-Care.



# TRS-Care Comparison: Premiums

Previous Premiums	85R Legislature Illustrative Retiree Premiums	85-1 Legislature/Board Adopted Final Premiums
Prior to January 1, 2018	Calendar Year 2018	Calendar Year 2018
<p><u>Non-Medicare Retirees</u>  Retiree Only = \$0 - \$310  Retiree &amp; Spouse = \$30 - \$665  Retiree &amp; Child(ren) = \$28 - 392  Retiree &amp; Family = \$58 - \$747</p> <p><u>Medicare B Only Retirees</u>  Retiree Only = \$0 - \$245  Retiree &amp; Spouse = \$25 - \$600  Retiree &amp; Child(ren) = \$34 - \$327  Retiree &amp; Family = \$59 - \$682</p> <p><u>Medicare A&amp;B Retirees</u>  Retiree Only = \$0 - \$110  Retiree &amp; Spouse = \$20 - \$465  Retiree &amp; Child(ren) = \$41 - \$192  Retiree &amp; Family = \$61 - \$547</p>	<p><u>Non-Medicare Retirees</u>  Retiree Only = \$200  Retiree &amp; Spouse = \$739  Retiree &amp; Child(ren) = \$433  Retiree &amp; Family = \$1,074</p> <p><u>Medicare Retirees</u>  Retiree Only = \$146  Retiree &amp; Spouse = \$590  Retiree &amp; Child(ren) = \$504  Retiree &amp; Family = \$1,106</p> <p><u>Current Disability Retirees not eligible for Medicare*</u>  Retiree Only = \$0  Retiree &amp; Spouse = \$539  Retiree &amp; Child(ren) = \$233  Retiree &amp; Family = \$874</p>	<p><u>Non-Medicare Retirees</u>  Retiree Only = \$200  Retiree &amp; Spouse = \$689  Retiree &amp; Child(ren) = \$408  Retiree &amp; Family = \$999</p> <p><u>Medicare Retirees</u>  Retiree Only = \$135  Retiree &amp; Spouse = \$529  Retiree &amp; Child(ren) = \$468  Retiree &amp; Family = \$1,020</p> <p><u>Current Disability Retirees not eligible for Medicare*</u>  Retiree Only = \$0  Retiree &amp; Spouse = \$489  Retiree &amp; Child(ren) = \$208  Retiree &amp; Family = \$799</p> <p><u>Retirees with adult disabled children</u>  Non-Medicare Retiree  &amp; Child(ren) = \$208  Non-Medicare Retiree &amp; Family = \$799  Medicare Retiree  &amp; Child(ren) = \$268  Retiree &amp; Family = \$820</p>

*\*Applies to members who retired as a disability retiree as of 1/1/2017*

# TRS-Care Comparison: Medical Plan Design

	TRS-Care 1	TRS-Care 2	TRS-Care 3	Medicare Advantage for TRS-Care 2	Medicare Advantage for TRS- Care 3	85R-Legislature Standard Plan	85R-Legislature Medicare Advantage Plan	85-1 Legislature / Board Adopted Final Standard Plan	85-1 Legislature/ Board Adopted Final Medicare Advantage Plan
Eligibility	All retirees			Retirees with both Medicare Part A & B		Non-Medicare Retirees (under age 65)	All Medicare Retirees (age 65 and older)	Non-Medicare Retirees (under age 65)	All Medicare Retirees (age 65 and older)
Deductible In- Network	\$2,350 Parts A&B \$3,900 Part B Only \$5,250 Non-Medicare	\$1,300	\$400	\$500	\$150	\$3,000 individual \$6,000 family	\$500	\$1,500 individual \$3,000 family	\$500
Maximum Out-of- Pocket In-Network	\$6,250 Parts A&B \$7,800 Part B Only \$8,250 Non-Medicare	\$5,800	\$4,900	\$3,500	\$3,150	\$6,650 individual \$13,300 family	\$3,500	\$5,650 individual \$11,300 family	\$3,500
Coinsurance	80%/20% (after deductible is met)  Preventative services such routine physical exam, cancer screenings, flu shot covered at 100%	80%/20% (after deductible is met)	80%/20% (after deductible is met)	95%/5%	95%/5%	80%/20% (after deductible is met)  Preventative services such routine physical exam, cancer screenings, flu shot covered at 100%  \$40 Teladoc consultation: Board-certified doctors diagnose, treat and write prescriptions via phone or video, available 24/7	95%/5%	80%/20% (after deductible is met)  Preventative services such routine physical exam, cancer screenings, flu shot covered at 100%  \$40 Teladoc consultation: Board-certified doctors diagnose, treat and write prescriptions via phone or video, available 24/7	95%/5%
Inpatient Hospital Facility				\$500 copay per stay	\$250 copay per stay		\$500 copay per stay		\$500 copay per stay
Outpatient Hospital Facility				\$250 copay	\$75 copay		\$250 copay		\$250 copay
Emergency Room				\$65 copay	\$50 copay		\$65 copay		\$65 copay
Urgent Care				\$35 copay	\$35 copay		\$35 copay		\$35 copay
Office Visits		Non-Medicare: \$35 copay Medicare: 80%/20% (after Medicare payment)	Non-Medicare: \$25 copay Medicare: 80%/20% (after Medicare payment)	\$5 Primary Care Physician \$10 Specialist	\$5 Primary Care Physician \$10 Specialist		\$5 Primary Care Physician \$10 Specialist		\$5 Primary Care Physician \$10 Specialist



# TRS-Care Comparison: Prescription Plan Design

	TRS-Care 1	TRS-Care 2	TRS-Care 3	Medicare Part D for TRS-Care 2	Medicare Part D for TRS-Care 3	1/1/2018 85-R Legislature / Board Adopted Standard Plan	1/1/2018 85-R Legislature / Board Adopted Medicare Advantage Plan
Eligibility	All retirees			Retirees with either Medicare Part A or B		Non-Medicare retirees (under age 65)	All Medicare retirees (age 65 and older)

## Retail Copays

Generic	80%/20% (after deductible is met)	\$10	\$10	\$5	\$5	<b>Preventative Maintenance \$0</b> 80%/20% (after deductible is met)	\$5
Preferred Brand	80%/20% (after deductible is met)	\$30	\$25	\$25	\$20	80%/20% (after deductible is met)	\$25
Non-Preferred Brand		\$50	\$40	\$50	\$40	80%/20% (after deductible is met)	\$50

## Mail Order Copays

Generic	80%/20% (after deductible is met)	\$20	\$20	\$15	\$15	80%/20% (after deductible is met)	\$15
Preferred Brand	80%/20% (after deductible is met)	\$75	\$50	\$70	\$45	80%/20% (after deductible is met)	\$70
Non-Preferred Brand	80%/20% (after deductible is met)	\$125	\$80	\$125	\$80	80%/20% (after deductible is met)	\$125

# 2019-2020 ActiveCare Gross Premiums

Coverage Tier	ActiveCare-1HD	ActiveCare-Select	ActiveCare-2
Employee Only	\$367	\$540	\$782
Employee & Spouse	\$1,035	\$1,327	\$1,855
Employee & Child(ren)	\$701	\$876	\$1,163
Employee & Family	\$1,374	\$1,668	\$2,194

- Gross monthly premiums shown before State and District Contributions
- For Employee Only coverage, the employee share of premium would be \$142 per month for the ActiveCare-1HD plan for a district contributing the minimum \$150 per month.
- A TRS informal survey of 2016 district contributions shows that more than 80% of district employees receive more than the monthly minimum employer contribution.

Monthly Contributions	Percent of Districts	Percent of Employees
\$225 Minimum contribution (State = \$75, District = \$150 min)	32.73%	17.29%
\$226 - \$400	60.22%	74.82%
\$401 or more	7.05%	7.88%

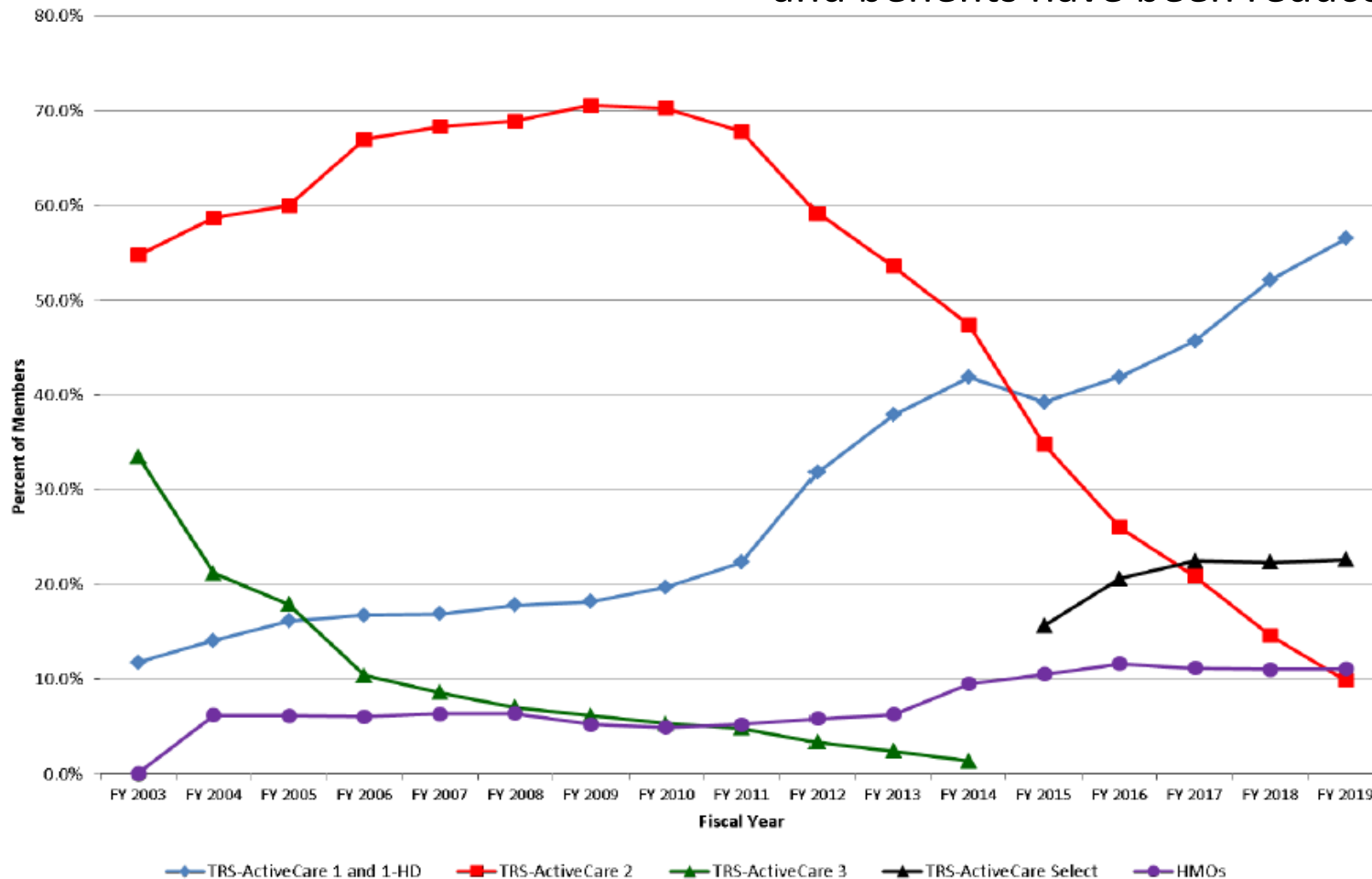
# 2019-2020 ActiveCare Benefits

	FY2019		
	TRS-ActiveCare-1HD	TRS-ActiveCare-Select	TRS-ActiveCare-2
In-Network Deductible			
Individual	\$2,750	\$1,200	\$1,000
Family	\$5,500	\$3,600	\$3,000
In-Network Maximum Out-of-Pocket Limit			
Individual	\$6,650	\$7,350	\$7,350
Family	\$13,300	\$14,700	\$14,700
Out-of-Network Deductible			
Individual	\$5,000	N/A	\$2,000
Family	\$10,000		\$6,000
Out-of-Network Maximum Out-of-Pocket Limit			
Individual	\$13,300	N/A	\$14,700
Family	\$26,600		\$29,400
Other			
ER Copay	20% after deductible	\$250 copay plus 20% after deductible	\$250 copay plus 20% after deductible
Free-standing ER (FER)	20% after deductible	\$500 copay plus 20% after deductible	\$500 copay plus 20% after deductible

		FY2019		
		TRS-ActiveCare-1HD	TRS-ActiveCare-Select	TRS-ActiveCare-2
MAIL ORDER & RETAIL-PLUS (up to 90 days supply)				
Generic	20% after deductible	\$45 copay	\$45 copay	
Preferred Brand		\$105 copay	\$105 copay	
Non-Preferred Brand		50% coinsurance	50% coinsurance (Min \$180, Max \$360)	
RETAIL MAINTENANCE (after 1 <sup>st</sup> fill; up to 31 days supply)				
Generic	20% after deductible; Mandatory Mail Order / Retail Plus	\$35 copay	\$35 copay	
Preferred Brand		\$60 copay	\$60 copay	
Non-Preferred Brand		50% coinsurance	50% coinsurance (Min \$90, Max \$180)	
RETAIL (up to 31 days supply)				
Generic	20% after deductible	\$20 copay	\$20 copay	
Preferred Brand		\$40 copay	\$40 copay	
Non-Preferred Brand		50% coinsurance	50% coinsurance (Min \$65, Max \$130)	
SPECIALTY PHARMACY				
Specialty	20% after deductible (31 day supply limit)	20% coinsurance (31 day supply limit)	20% coinsurance (Min\$200, Max \$900) (31 day supply limit)	

# TRS-ActiveCare Enrollment History

There has been a significant shift in enrollment as premiums have increased and benefits have been reduced.

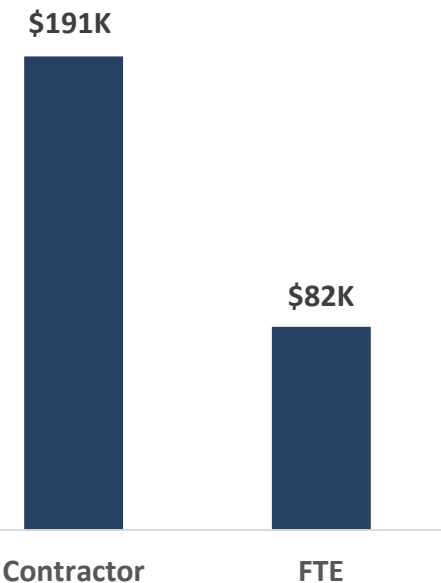


- TRS-ActiveCare 3 was closed to new enrollees in FY2014 and discontinued in FY 2015.
- TRS-ActiveCare Select was introduced in FY2014.
- TRS-ActiveCare 2 was closed to new enrollees in FY2019.

# Restore and Improve Customer Service

- TRS has been developing internal technologies, infrastructure and services to provide better customer service delivery for our members. This is to align with the evolution of the technological industry while protecting member personal information.
- TRS conducts weekly advanced security testing that identifies any systems vulnerability. TRS collaborates similar testing from the Texas DIR and has engaged with the University of Texas Information Security Services to test our external systems and applications.
- **TRS averages 27,000 security alarms of varying severity a month, that averages to 1,900 events every second.**
- TRS must collect and maintain accurate and reliable data from school districts and other reporting entities while expanding the number of automated processes, and incorporating modern technologies. **Hiring FTE's with the necessary technical skill set will cost significantly less than relying on more expensive contract services.**

Average FTE Cost vs  
Contractor Cost



## Optional Retirement Program Summary of Recommendations - House

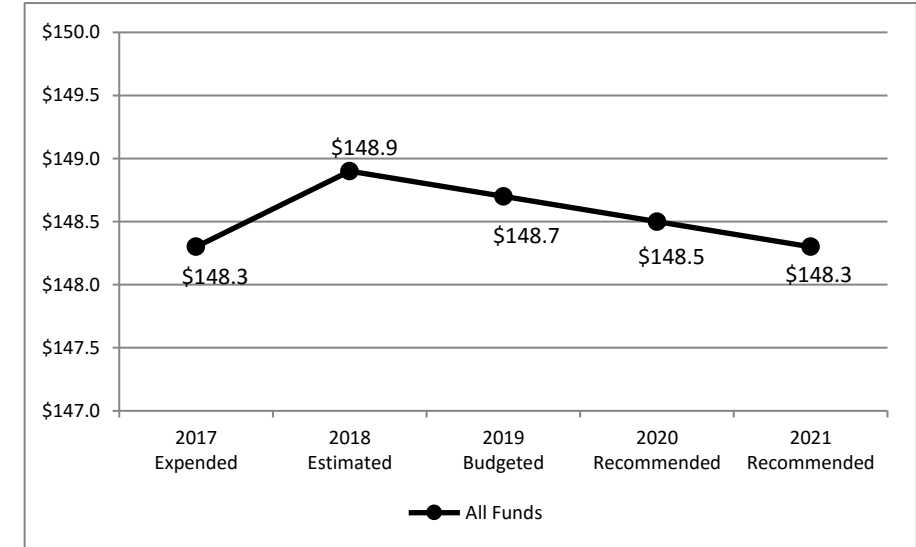
Section 1

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Avery Saxe, LBB Analyst

Method of Financing	2018-19 Base	2020-21 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$246,530,981	\$243,228,738	(\$3,302,243)	(1.3%)
GR Dedicated Funds	\$51,094,536	\$53,576,505	\$2,481,969	4.9%
<i>Total GR-Related Funds</i>	<i>\$297,625,517</i>	<i>\$296,805,243</i>	<i>(\$820,274)</i>	<i>(0.3%)</i>
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	0.0%
<b>All Funds</b>	<b>\$297,625,517</b>	<b>\$296,805,243</b>	<b>(\$820,274)</b>	<b>(0.3%)</b>

Historical Funding Levels (Millions)



### Agency Budget and Policy Issues and/or Highlights

- The Optional Retirement Program is a defined contribution retirement program offered as an alternative to TRS retirement for certain higher education faculty and professionals who require interstate mobility during their careers.

The bill pattern for this agency (2020-21 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2020-21 biennium.

**Optional Retirement Program**  
**Summary of Funding Changes and Recommendations - House**

**Section 2**

Funding Changes and Recommendations for the 2020-21 Biennium compared to the 2018-19 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
<i><b>SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):</b></i>							
A)	Decreased funding due to the decline of payroll covered by GR.	(\$3.3)	\$0.0	\$0.0	\$0.0	(\$3.3)	A.1.1
B)	Increased funding due to the growth of payroll covered by GR-D.	\$0.0	\$2.5	\$0.0	\$0.0	\$2.5	A.1.1
<b>TOTAL SIGNIFICANT Funding Changes and Recommendations (in millions)</b>		<b>(\$3.3)</b>	<b>\$2.5</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$0.8)</b>	As Listed
<i>SIGNIFICANT Funding Increases</i>		\$0.0	\$2.5	\$0.0	\$0.0	\$2.5	As Listed
<i>SIGNIFICANT Funding Decreases</i>		(\$3.3)	\$0.0	\$0.0	\$0.0	(\$3.3)	As Listed

NOTE: Totals may not sum due to rounding.

**Optional Retirement Program  
Selected Fiscal and Policy Issues - House**

1. **State Contributions to the Optional Retirement Program.** Recommendations for the 2020-21 biennium total an estimated \$296.8 million in All Funds, a decrease of \$0.8 million or 0.3 percent from the 2018-19 base. The biennial decrease is due to a projected decline in the institutional use of GR to fund ORP participant payroll, partially offset by projected increases in payroll covered by GR-D. Recommendations provide a 6.6 percent state contribution rate for ORP participants in the 2020-21 biennium, the same rate as the 2018-19 biennium.

Recommendations assume an annual 0.1 percent net decrease in appropriations to ORP. This decrease is due to the projected 0.7 percent annual decline of GR covered payroll, partially offset by the projected 2.4 percent annual growth of GR-D covered payroll. The 2018-19 General Appropriations Act budgeted a 1.0 percent annual decrease in GR and a 3.0 percent annual growth of GR-D.

These assumptions are based on five and ten-year annual growth trends of 2.4 percent and 2.3 percent, respectively, for all ORP payroll and on institutions' increasing use of GR-D, designated tuition, and other local funds to pay employee salaries rather than GR. This method of finance change reduces the amount of GR required to fund the state ORP contribution under current law.



**Optional Retirement Program  
Appendices - House**

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<b>C</b>	FTE Highlights	*
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<b>E</b>	Summary of Ten Percent Biennial Base Reduction Options	*

\* Appendix is not included - no significant information to report

Optional Retirement Program  
Funding Changes and Recommendations - House, by Strategy -- Supplemental

Strategy/Fund Type/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments
OPTIONAL RETIREMENT PROGRAM A.1.1	\$297,625,517	\$296,805,243	(\$820,274)	(0.3%)	Recommendations include a state contribution rate of 6.6 percent of active member payroll.
GENERAL REVENUE FUNDS	\$246,530,981	\$243,228,738	(\$3,302,243)	(1.3%)	Estimated appropriations assume an annual (0.7) percent decrease in GR-covered payroll from FY 2018 to FY 2021 due to institutions' increasing use of other funding sources to pay ORP participant salaries. The 2018-19 base has been adjusted to reflect actual 2018 expenditures and updated projections for 2019.
GR DEDICATED	\$51,094,536	\$53,576,505	\$2,481,969	4.9%	Estimated appropriations assume an annual 2.4 percent increase in GR-D covered payroll from FY 2018 to FY 2021 based on recent trends. The 2018-19 base has been adjusted to reflect actual 2018 expenditures and updated projections for 2019.
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>Total, Goal A, OPTIONAL RETIREMENT PROGRAM</b>	<b>\$297,625,517</b>	<b>\$296,805,243</b>	<b>(\$820,274)</b>	<b>(0.3%)</b>	
GENERAL REVENUE FUNDS	\$246,530,981	\$243,228,738	(\$3,302,243)	(1.3%)	
GR DEDICATED	\$51,094,536	\$53,576,505	\$2,481,969	4.9%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>Grand Total, All Agency</b>	<b>\$297,625,517</b>	<b>\$296,805,243</b>	<b>(\$820,274)</b>	<b>(0.3%)</b>	
GENERAL REVENUE FUNDS	\$246,530,981	\$243,228,738	(\$3,302,243)	(1.3%)	
GR DEDICATED	\$51,094,536	\$53,576,505	\$2,481,969	4.9%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	

**Optional Retirement Program**  
**Performance Measure Highlights - House**

	<b>Expended 2017</b>	<b>Estimated 2018</b>	<b>Budgeted 2019</b>	<b>Recommended 2020</b>	<b>Recommended 2021</b>
• <i>Number of Participants in the Optional Retirement Program</i>	37,615	37,419	37,419	37,419	37,419
<i>Measure Explanation: Fiscal years 2017 and 2018 are actual participation totals as reported by the Texas Higher Education Coordinating Board. Estimates for 2019-21 are based on 2018 participation remaining constant. The average annual change in participation since 2009 is -0.6 percent.</i>					